

104.

# U.S. INTERESTS IN SOUTH ASIA

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Y 4. IN 8/16:AS 4/7

U.S. Interests in South Asia, Heari...

## HEARINGS

BEFORE THE

SUBCOMMITTEES ON  
INTERNATIONAL ECONOMIC POLICY AND TRADE  
AND

ASIA AND THE PACIFIC

COMMITTEE ON  
INTERNATIONAL RELATIONS  
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

FIRST AND SECOND SESSIONS

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DECEMBER 5, 1995 AND APRIL 18, 1996

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Printed for the use of the Committee on International Relations



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## PART 1—U.S. SECURITY INTERESTS IN SOUTH ASIA

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WEDNESDAY, DECEMBER 6, 1995,

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON INTERNATIONAL RELATIONS,  
SUBCOMMITTEE ON ASIA AND THE PACIFIC,  
*Washington, DC.*

The subcommittee met, pursuant to notice, at 2:24 p.m. in room 2172, Rayburn House Office Building, Washington, DC, Hon. Doug Bereuter, chairman of the subcommittee, presiding.

Mr. BEREUTER. Today we will hold the first of two hearings on a large and diverse region of South Asia, which contains nearly one-fourth the world's population and has significant impact on a number of important U.S. interests.

Our hearing today will address U.S. security interests in the region. Next week, on December 12, we will hold a hearing on U.S. trade and investment interests in South Asia, which are fast growing in importance.

These two hearings most certainly will not exhaust the range of U.S. interests and concerns, but their subjects represent two of our highest priorities.

It is a matter of satisfaction to be able to counterpose today's hearing, with its inevitable sobering overturns, with a subsequent hearing on the commendable and even revolutionary economic policy reforms that many of the South Asian countries have adopted during the past 4 or 5 years.

Despite a number of positive developments in recent years, we cannot afford to ignore the ongoing serious threats to peace and stability in South Asia, as represented by unresolved territorial disputes, active regional dissidence movements—sometimes aided and abetted by neighboring countries—and the continuing threat of nuclear and missile proliferation.

Unfortunately, the source of current and potential conflicts in South Asia has deep historic roots. This makes them all the harder to address and resolve.

Due to the high stakes involved for U.S. interests, I expect that today's witnesses will focus their remarks primarily on the long-standing India-Pakistan rivalry.

Although both countries have generally promoted their respective positions and their high degree of awareness of the consequences of miscalculation, they continue to engage in fire fights high on the Siachen Glacier. Both have the capability to produce nuclear weapons and the weapons systems that can deliver them.

In the past, U.S. officials have described South Asia as a region in which there was probably the greatest risk of deployment of weapons of mass destruction, including nuclear weapons.

One of today's witnesses, Assistant Secretary of State for South Asian Affairs, Robin Raphel, spoke in similar terms during our first overview hearing this past February.

A few weeks ago, the conferees on the foreign operations appropriations bill adopted an amendment offered by Senator Hank Brown that would partially relax the Pressler Amendment ban on most aid and military and technology transfer to Pakistan.

This would allow the restoration of economic aid and important export-related programs, such as OPIC and investment insurance, and facilitate renewed military-to-military contact.

The legislation would also allow the one-time release of some \$368,000,000 in military hardware to Pakistan that had been contracted before October, 1990, when President Bush decided that he would no longer make a required certification under the Pressler Amendment that Pakistan did not possess nuclear weapons.

The legislative changes to the Pressler Amendment would explicitly forbid the release of some 28 F-16 aircraft, but would allow the Administration to sell them to a third party buyer and reimburse Pakistan with the proceeds. I might say I think we started that process here in the authorizing committee.

The foreign operations appropriations bill currently is the subject of a House/Senate deadlock over an unrelated issue, but it is expected eventually that these changes will become law.

I am convinced that the arms release will have no significant impact on the existing military balance in favor of India. Moreover, it is important in my mind to get beyond the Pressler deadlock and put ourselves in a position to positively influence defense policy-making in both India and Pakistan.

The Indian Government's concerns are understandable from its perspective. I would point out, however, that not only did the Administration strongly support the changes, but it is nearly the unanimous conclusion of our non-official policy community that the Pressler Amendment in its current form has outlived its usefulness.

I am hopeful that the Indian Government will interpret our action in the proper spirit and engage with us in a serious discussion, oppressing regional security issues.

A longstanding Kashmir dispute is at the root of the Indian-Pakistan rivalry and figures in three sub-continental conflicts.

The upsurge of anti-government violence in India's Jammu and Kashmir state since early 1990 is perhaps the most troubling example of the kinds of problems arising in a region with a highly diverse population, as well as a longstanding history of conquest, colonialism and changing political boundaries.

Regional dissidence, whether ethnic, linguistic or religious-based, is by no means confined to India, but affects every South Asian country to some extent.

On November 14, this subcommittee held a hearing on the situation in Sri Lanka, where a hot war rages between the government and ethnic Tamil guerilla forces.

The Kashmir problem has the greatest potential for sparking a possibly devastating conflict, however, because it involves disputed territory.

During the past couple of years, the United States appears to have had limited success, at best, in its efforts to prevent ongoing movement toward the deployment of nuclear weapons and ballistic missiles.

At the moment, considerable ambiguity surrounds the nuclear programs and capabilities of both India and Pakistan, as well as their missile programs.

With regard to the latter, we are particularly concerned about M-11 missiles that Pakistan reportedly has obtained from China, and about India's indigenous Prithvi missile that it appears on the verge of deploying.

I look forward to hearing the testimony of both the Administration and the private witnesses on this matter. In my charge of the witnesses, I asked them generally to indicate and explain the nature of our security concerns, priorities and policies and evaluate the success of our efforts to date to reduce the potential for conflict and to contain nuclear and missile proliferation.

I realize that an open hearing format imposes severe restraints on you, especially for the Administration, but I am hopeful that you will be able to be sufficiently candid to facilitate our informed public debate in this country.

I am pleased that we have been able to establish two strong panels. The first, the Administration, will be represented by Assistant Secretary of State for South Asian Affairs, the Honorable Robin Raphel, who I have already mentioned, and Deputy Assistant Secretary of Defense for Near Eastern and South Asian Affairs, Mr. Bruce Riedel.

Mr. Riedel previously served as National Intelligence Office for the Near East and South Asia and as director of Near East and South Asian Affairs on the NSC staff. Both are well placed to address regional security issues.

I will introduce the second panel at a later time. I would now turn to the ranking member, Mr. Berman, the distinguished gentleman from California, for such comments as he might care to make.

Mr. BERMAN. Thank you, Mr. Chairman for recognizing me and for holding the hearing. I would like to have my whole statement included in the record, if I can.

Mr. BEREUTER. Without objection.

[The prepared statement of Mr. Berman appears in the appendix.]

Mr. BERMAN. Because we have a number of good witnesses, I will cut it short. There is some dispute, although most people think there is no immediate threat of a major confrontation between India and Pakistan, but the persistence of tension clearly increases the chance that a relatively minor dispute might escalate seriously.

So, this is an important subject. I would be interested in hearing, in some fashion either the testimony or in response to specific questions, a few of the Administration's particular views on China's role in either furthering or hindering the progress toward nuclear

non-proliferation and non-proliferation of weapons of mass destruction.

I would be interested in the Administration's thoughts on terrorism. We have recently seen the horrible attack on the Egyptian embassy in Pakistan and earlier attacks on Americans and others as well there.

I am curious to know how the Administration views recent Iranian activity in South Asia and what are the implications of that. Narcotics I think is an important issue.

The turmoil in Afghanistan. The weak governments in Central Asia create a tremendous opportunity for drug trafficking.

Let me just differ a little bit or maybe not differ from my chairman's comments; it very well could be that the Pressler Amendment needed some changes.

I am not yet persuaded that selling relatively sophisticated weaponry to Pakistan will do much more than trigger a greater escalation of an arms race in that part of the world.

To the extent that you care to discuss it, since we were not members of the appropriations conference that really heard and discussed this issue in more detail, the Administration's thoughts on the position that it took and why it took it, I think would be of interest to me.

I do think the Administration deserves to be commended very strongly for its efforts to improve relationships with both countries in the region.

The most recent discussion has been with respect to Pakistan, but the Administration has worked long and hard to improve our relationship with India, which has not always been as strong as I think it is becoming.

Most noteworthy was the visit by the First Lady last winter. I think dealing with sources of frictions in the U.S.-Indian relationship are important and I congratulate you for working on that.

Thank you, Mr. Chairman.

Mr. BEREUTER. Thank you.

Are there other members who wish to be heard or to submit a statement?

Mr. ROYCE. Yes, Mr. Chairman, if I could.

Mr. BEREUTER. The gentleman from California, Mr. Royce.

Mr. ROYCE. In regard to the Indian subcontinent, the strategic delivery capability represented by the 30 Chinese M-11's that the Administration has been playing semantics with for some time is now a very destabilizing factor.

It aggravates an already spiraling arms buildup throughout Asia at a time when all the regions' countries could be better served by economic and social development to undergrid their liberalizations.

Worse yet, it encourages China to continue with its nuclear, chemical and biological programs and with trade from Pakistan across to Iran.

So, we see a pattern emerging of weakened U.S. resolve, weakened U.S. will on curbing proliferation and dampening regional conflict and in increasingly well armed and adventurous China. This is a combination for disaster in the world's most populous and most nuclear ringed region.

Having set this in context, let me just make a comment about China to which I would like all of you to respond and respond particularly if you would with a mind toward India, our newest strategic ally in the region, on whose stability and security is critical to the United States and to the prospects for the region.

Among the issues of concern for India and for stability in the region are the double digit increase in the PRC military budget for the past 5 years, aggressive acquisition of weapons systems and platforms such as the SU-27 fighter planes and kilo class submarines from the former Soviet Union, increased signs of regional aggressiveness and continued development of a strategic nuclear and other weapons of mass destruction programs, specifically violations of the nuclear test ban treaty and development of a road mobile ICBM.

A rapid growth of Chinese intelligence operations and capabilities, long ignored or downplayed in the west, China's successful test explosion of a neutron bomb, continued supply of nuclear materials and technology to Pakistan and last the transit of nearly half of U.S.-bound heroin from Burma through southern China, with official connivance.

These are just a few examples of concern we have with China. If we have them, what do you think ought to be the level of concern in India? India a democracy allied with the United States, sharing a long border over which it has fought twice with China.

A country, which according to the State Department's global terrorism review, for many years in a row has been the target of terrorist attacks, based in and sponsored by its neighbors, who are armed by China.

A country sharing a vital sea with China's nuclear submarines, increasingly quiet ones as I understand, while India has none.

What is India to think and what would you suggest we tell the Indians and others in the region, that we are willing to do to blunt any potential danger now before it becomes more costly to do so later, for them and for us?

Thank you.

[The prepared statement of Mr. Royce appears in the appendix.]

Mr. BEREUTER. I thank the gentleman.

Are there further members who wish to be recognized? I will turn to the Democratic side first. Mr. Ackerman.

Mr. ACKERMAN. Thank you, Mr. Chairman.

I am very pleased that the subcommittee is focusing on the security question in South Asia and I want to thank you for assembling such a distinguished group of panelists to help us in our deliberations today.

The prevention of nuclear and ballistic missile proliferation, along with the reduction in regional tensions that could trigger the use of such weapons, is and should be at the top of the list of U.S. objectives in South Asia.

Recently however, as you well know, Congress took what a great many members consider the ill-advised step of suspending the Pressler Amendment and allowing the delivery of \$368,000,000 in military equipment that was in the so-called pipeline before the October, 1990 cutoff of aid and arms transfers to Pakistan.

I believe that this transfer will only serve to further heighten tensions in a region that often flirts with conflict.

In this regard, I note with some dismay a recent article in the Washington Post by one of today's witnesses, Michael Krepon, that cites the breakdown of confidence building measures, such as regular meetings of local military commanders along the Kashmiri border that no longer take place.

Transferring arms to a region where the most basic communication between protagonists does not take place cannot be considered anything but destabilizing.

Add to this reports that both India and Pakistan are backing away from prior commitments to negotiate a comprehensive test ban treaty, as well as a global ban on producing fissile material and you have the makings of a real crisis.

I look forward today to our witnesses' testimony and to continuing efforts to reduce the tensions in South Asia.

Thank you again for calling this hearing.

Mr. BEREUTER. Thank you, Mr. Ackerman.

The gentleman from California, Mr. Rohrabacher.

Mr. ROHRABACHER. I will try to make this short, Mr. Chairman.

The ongoing arms race between India and Pakistan is a tragedy. It is destabilizing to the world, but more importantly it is a tragedy for the people of India and Pakistan themselves.

The people of India and Pakistan do not need an arms race to waste limited resources. Their people need those resources for other things and the leadership in both of those countries should be ashamed of themselves that they are wasting so much money, when their people need education and other infrastructure and wasting it on weapons to kill each other.

I will say that I have tried to study the area. I think the underlying cause for the tension between India and Pakistan remains the fact that India has been unwilling to have a free election and let the Kashmiri people make the determination as to what country they want to belong to, which has been going on for four decades.

I would hope that this conflict between India and Pakistan can be put behind them and that they can become friends, realizing that they both have a lot of work to do to build better lives for their people, but that starts with a recognition of fundamental human rights, which is people in Kashmir should have a right to vote to control their own destiny, as they were promised four decades ago.

The violation of their human rights is what causes major problems and last but not least, in China, where we see the violation of human rights, that too has a spillover, because we see a more belligerent China.

A China governed by people, who again want to spend their money on weapons, rather than building the better standard of living for their own people.

Again, by standing for human rights, freedom and liberty and democracy, as we did in the markup prior to this hearing, I think that we are talking about fundamental solutions. That is what people in those countries need to talk about is fundamental solutions.

Thank you very much, Mr. Chairman.

Mr. BEREUTER. Thank you, Mr. Rohrabacher.

Mr. Brown.

Mr. BROWN. Thank you, Mr. Chairman.

It is clear our national trade policy more and more every year is focusing on India. I would like to ask, Mr. Chairman, unanimous consent to place in the record an article that appeared in the Wall Street Journal in November of this year, "India and China Take Far Different Paths".

Mr. BEREUTER. Without objection.

[The article appears in the appendix.]

Mr. BROWN. The article describes the two different paths of economic development taken by the two most populous nations in the world, China and India.

Among other things, the article notes some Washington officials think democratic India's long term potential might, in fact, outstrip authoritarian China's, but former Secretary of State Henry Kissinger is a big fan of China, where he does a lot of consulting.

Nonetheless, Mr. Chairman, I submit that India is a much better opportunity for American investors, precisely because it is a democracy.

The human rights are important in and of themselves and human rights are important because democracies are more stable, more predictable obviously than dictatorships.

The Wall Street Journal goes on to say, "Ultimately though what will determine the economic prospects of the two countries is culture. China is an authoritarian state. Deliberate. Sometimes brutal. India is a free-for-all democracy, slow moving. Sometimes erratic.

"On the other hand, India has a large English-speaking university trained work force. China, though often university-trained, is schooled mainly in Chinese.

"India, more importantly, has a strong legal tradition. Its courts are clogged with cases, as are ours, whereas China is only developing a rule of law. India's more open tradition lures its investors. China's decisiveness pleases its backers."

Mr. Chairman, this important article underscores the argument that India will be one of the U.S.'s strongest economic partners in the next century.

I yield back, Mr. Chairman. Thank you.

Mr. BEREUTER. Mr. Faleomavaega.

Mr. FALEOMAVAEGA. Mr. Chairman, just an observation.

I certainly appreciate the comments made by our colleagues here on the committee. I raise this question and hopefully it will be answered by the members of the panel.

It is all right for the United States and its western allies to sell military hardware to its friends, but it is not all right for China and other Southeast Asian countries to do likewise. Where do we find the sense of equity and fairness in the process?

Another question I have, it is all right also that we make restrictions on these countries who we depend upon now as well as for the future to have tremendous trade relations with them.

So I am at somewhat of a quandary where are we headed for as far as our policies, both by way of trade and also when we deal with security issues.

Thank you, Mr. Chairman.

Mr. BEREUTER. I thank the gentleman.

We will turn now to the first panel of our distinguished witnesses. I appreciate the patience you have had in sitting through our markup.

Since this marks the first of two overview hearings that we will have on South Asia, I think that it is appropriate to hear from the members in some detail as you have so it is a two-way dialog. That is why this member spoke at length and permitted our colleagues to do so.

Now, I would appreciate it if you could summarize, with each of you still taking 10 or 12 minutes if you need it, so that we may hear from you on the important subject of the day and then have an opportunity for questions to the two of you.

Secretary Raphel, if you would proceed. Your full statement will be made a part of the record, as will yours, Secretary Riedel. You may proceed as you wish.

**STATEMENT OF HON. ROBIN L. RAPHEL, ASSISTANT SECRETARY OF STATE FOR SOUTH ASIAN AFFAIRS, U.S. DEPARTMENT OF STATE**

Ms. RAPHEL. Thank you, Mr. Chairman.

I really welcome this opportunity to testify on the security challenges facing the countries of South Asia. Your willingness to focus the subcommittee's time and attention on this aspect of U.S. policy toward this very important region is greatly appreciated.

I will give a short statement here and then we can engage in some of the very important issues and questions that members of the committee have put forward.

The greatest potential for instability in South Asia is the underlying tension between India and Pakistan and therefore, my testimony will focus primarily on these two countries.

Although there is no immediate threat of war, relations between the two are bad and showing no sign of improving. There has been no substantive high level dialog in almost 2 years.

Both governments are under strong domestic political pressure that makes them reluctant to take the risk of opening to the other.

These political forces, combined with threat perceptions, drive both countries to continue programs to develop weapons of mass destruction and ballistic missiles.

Our efforts to dissuade both countries from pursuing and escalating along this course are unrelenting, but regrettably not as successful as we would like.

While outsiders may see South Asian countries' fears of their neighbors as overblown, both India and Pakistan see severe threats to their national security coming from across their borders.

Many Pakistanis believe that India is intent on pursuing its own regional hegemony at the price of Pakistan's breakup.

For Pakistan, nuclear weapons represent the ultimate deterrent to such a loss of national sovereignty, given India's clear conventional military superiority.

Indians see their most immediate threat coming from Pakistan, which they believe supports terrorists who are trying to undermine India's territorial integrity.



Indian policymakers also routinely cite a long-term threat from nuclear-armed China as a rationale for maintaining a nuclear option.

Further, India's vision of itself as a global power underpins security arguments for its nuclear and missile programs.

More immediate to many South Asians are internal security problems which often spill over into interstate tensions.

Most South Asian states face domestic insurgencies or internal unrest, which sap resources and heighten insecurities.

Often the result of unresolved political differences, these conflicts can and do fuel escalating violence, human rights violations and terrorism.

This has been the case in Kashmir for some years. Pakistan also faces ongoing violence in Karachi, resulting from legitimate political grievances, which have been enormously magnified by extremism and lawlessness.

Such an atmosphere can draw in militant groups from outside the region. The recent bombing of the Egyptian embassy in Islamabad is a new and ominous development in that regard.

The continued conflict in Afghanistan is a major source of instability. Afghanistan has become a leading training ground for militants who carry strife to Pakistan, India, the Middle East, Bosnia and beyond.

When Kabul was bombed last week, we again publicly deplored the violence that continues in Afghanistan and particularly the toll of civilian casualties.

Foreign involvement in Afghanistan has exacerbated the problem. Afghanistan regrettably is also becoming another theater for Indo-Pakistani competition.

With regard to Sri Lanka, several weeks ago, Deputy Assistant Secretary Lanpher discussed our concerns about that country's continuing internal struggle.

In Bangladesh, the past 19 months have been a period of political deadlock, resulting in numerous and frequently violent strikes and demonstrations.

The U.S. Government has consistently urged both sides to work together to find a settlement that would ensure peace and stability during and after the national elections now scheduled for January 18.

These threats to security and stability in South Asia are serious. While we recognize the United States has limited ability to influence the core causes of regional instability, the issue must remain high on our agenda.

To be effective, any U.S. approach has to take into account the legitimate security needs of the regional states and must look to measured realistic steps that can help the countries themselves to enhance internal stability and reduce regional tensions, while furthering our own growing interests in the region.

India, with its large population, growing economy and technological prowess, has the potential to be among the world powers of the 21st century. To achieve the status, however, India will need to show leadership in pursuing good relations with its neighbors.

We realize there is residual suspicion in India of the United States left over from the cold war when India was generally aligned with the Soviet Union.

We take these concerns seriously, as they can undermine our efforts to develop the kind of bilateral relationship that both countries want and need.

We have been working to allay the suspicion through robust dialog with Indian decisionmakers and increasing cooperation in a broad spectrum of fields.

Pakistan has been a valuable friend and ally for nearly five decades and remains important to the United States in the post cold war environment.

For this reason, the Administration has favored the easing of sanctions placed on Pakistan in 1990, as a result of the Pressler Amendment.

Much has been said about the military equipment in the context of this effort, but the primary significance is political.

The revisions embodied in the foreign operations appropriations bill will provide the opportunity for us to build a sounder, more mature relationship with Pakistan.

We must be realistic. Progress toward reestablishing a steady, predictable relationship will take time and continued attention.

Central to Indo-Pakistani tensions is Kashmir, where insurgency and counterinsurgency flourish and innocent civilians pay the price for continuing strife.

The situation cries out for dialog between India and Pakistan, between India and Kashmiri leaders and among Kashmiris. We have repeatedly said we stand ready to help, but only if all parties agree that our assistance is welcome.

We have urged India to engage Kashmiris in a genuine political dialog and to further curb security force abuses. We have urged Pakistan to end material support for Kashmiri militants as a step toward lowering tensions. We have engaged Kashmiri leaders in an effort to get them to think creatively about political solutions.

But without a re-opening of communications between India and Pakistan, there can be no growth of trust. Without a lowering of the excessive rhetoric on both sides, the opportunities to seek rational solutions will remain limited.

We are also concerned about the perfunctory use of existing confidence building measures between India and Pakistan. Without functioning confidence building measures there is a greater danger that a future crisis between the two nuclear capable states could flare out of control.

We have urged India and Pakistan to take simple steps to reduce tensions, such as withdrawing troops from the Siachen Glacier, where hundreds have died over the years for the sake of positions of questionable strategic value.

India and Pakistan negotiated an agreement for such withdrawal in 1990, but it was never signed. It could now be dusted off and implemented.

There are no quick fixes to the security problems of South Asia. I would reiterate that both countries perceive grave threats to their vital national security interests. They believe that this requires that they maintain a nuclear option.

Building a mature, thoughtful dialog between India and Pakistan will take patience, increasingly confident democratic leaderships and the political will and imagination to look ahead instead of backwards.

Increasingly strong and friendly U.S. relations with each of the countries in the region can help this process and we intend to continue to develop those relations.

I think I will stop there, Mr. Chairman.

[The prepared statement of Ms. Raphael appears in the appendix.]

Mr. BEREUTER. Thank you very much, Madam Secretary.

Secretary Riedel, if you would proceed now in the same fashion or any manner which you choose.

**STATEMENT OF MR. BRUCE O. RIEDEL, DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR NEAR EASTERN AND SOUTH ASIAN AFFAIRS, U.S. DEPARTMENT OF DEFENSE**

Mr. RIEDEL. Thank you, Mr. Chairman and members of the subcommittee. I am also pleased to be here today with Assistant Secretary Raphael to testify on U.S. security interests in South Asia. In doing so, I would like to build on Secretary Raphael's overview of U.S. security interests and concerns in this increasingly important region by addressing the Department of Defense's efforts to support those larger interests through our engagement with the defense establishments of the various countries in South Asia.

Given the very prominent role of Indo-Pakistani relations and our security concerns, the preponderance of my remarks will deal with those two countries. Obviously a key factor, as we look into the future of the Indo-Pakistani relationship, will be the potential impact of the pending revision of the Pressler Amendment, an issue I hope to put into somewhat sharper focus.

I would like to start by discussing the Defense Department's particular prospective as to the importance of South Asia.

With the end of the cold war, operational considerations have caused us to broaden our traditional focus on Europe and North-east Asia to include concerns elsewhere. So far in this decade, U.S. forces have been committed to operations in the Persian Gulf area on four occasions: Operation Desert Storm, Operation Vigilant Warrior and the still ongoing operations Provide Comfort and Southern Watch. In 1991, our forces were committed to Operation Sea Angel, in which they rescued tens of thousands of cyclone victims in Bangladesh. In 1992, they were committed to U.N. peace-keeping operations in Somalia and 2 years later to U.N. operations in Rwanda. Common to all these operations was their proximity to the Indian Ocean, a body of water whose strategic significance is only increased as the world's dependence on oil from the Persian Gulf has grown.

A second factor affecting our perception of the geographic significance of South Asia is the location of the second major military power in the region, Pakistan, at the intersection of three often unstable regions, South Asia, Southwest Asia and Central Asia. Pakistan has long been a friend of the United States in this area, where we sometimes have not had an abundance of friends. Given the troubled condition of many states in this region, we have valued Pakistan's efforts to develop democracy and a market economy.

In addition to the region's geographic significance, the Department of Defense must consider the military potential of the South Asian countries, particularly India and Pakistan, which possess respectively the world's second and eighth largest armies, based on the total number of men and women in their respective ground forces. To put that into perspective, the U.S. Army would rank No. 6 by this criterion, much smaller than India's 1.2-million man army, but not that much larger than the 500,000-man Pakistani Army. While we would not consider either of these to be a likely opponent, the downsizing of U.S. forces requires us to think in terms of coalitions, especially for peacekeeping missions. Accordingly, the willingness of these two countries to commit their forces to causes we support makes them particularly important in our strategic calculations.

In that regard, the Department of Defense has found itself interacting operationally and cooperatively with the armed forces of these two countries more in the last 5 years than at any time in their 48-year histories. Pakistan contributed two brigades to the Desert Storm coalition. It was the first in and among the very last out of Somalia, an operation I might add in which it participated at the express request of Presidents Bush and Clinton, and in which its forces sustained more casualties than the United States or any other contingent and to which it ultimately committed over 7,000 troops. Pakistan currently has an infantry battalion participating in the U.N. mission in Haiti and has asked for one of its two battalions assigned to UNPROFOR to be transferred to the International Force (IFOR) in Bosnia.

My written testimony details the contributions of the other South Asian states to U.N. peacekeeping operations.

Obviously, the willingness of all of these countries, particularly India and Pakistan, to commit their militaries in significant numbers to peacekeeping and other operational missions is an important factor in our assessment of the importance of South Asia.

A final factor influencing our perspective on the area is the potential for conflict between India and Pakistan, which Assistant Secretary Raphel has already outlined, and the consequences that such a conflict would have for the United States. There is no need to repeat the history of the bitter animosity that has characterized these relations. Suffice it to say that these two states have fought three wars in less than 50 years, share a border along which both sides have deployed the majority of their ground forces and must contend with the potential flash point of Kashmir.

Given this difficult environment, it is not surprising that we view the nuclear capabilities and the associated ballistic missile programs of India and Pakistan with considerable concern and as the regional issue of greatest importance. Accordingly, we do not and will not hesitate to caution Pakistan and India in regard to their nuclear and missile programs.

While India and Pakistan's geographic and conventional military importance argue for closer defense ties, some argue their nuclear and missile programs demand that we should keep them at arm's length.

I would answer that with a comment by Secretary Perry in a speech earlier this year: "We believe that a strong defense relation-

ship and increased cooperation with India and Pakistan will allow us to better pursue our common security interests, but at the same time they will provide a better basis for working out the policy differences which we have with each of these countries."

He went on, "We find India and Pakistan's position on nuclear proliferation unpalatable. But to use this as a reason to disengage from the region or to avoid deepening our security ties with these nations could undermine efforts to cap their destructive capability. It could even help push them toward an unfettered arms race. That would be disastrous. I believe that we can best help to avoid the disaster by building bridges of trust between the United States and India and between the United States and Pakistan."

With that as our guidance, we in the Department of Defense have attempted to build bridges of trust through the strengthening of our bilateral defense relationships and by increasing our military cooperation within established legal limitations.

Let me now review briefly our ongoing activities in various South Asian countries. In India, within the last year, the Department of Defense has worked to establish an expanded security dialog and a more cooperative defense relationship. In January, 1995, in New Delhi, Secretary Perry signed our first ever security agreement with India, which provides a framework for three levels of defense cooperation. A Defense Policy Group, chaired by the Assistant Secretary of Defense for International Security Affairs, first met this September to discuss security policy and other strategic issues of common interests. Subsequently, a Joint Technical Group, chaired by the Principal Deputy Assistant Secretary of Defense for Dual Use Technology, met to discuss the potential for technology and production cooperation. At a third level, we are fostering greater service-to-service cooperation by having the Army, Navy and Air Force component commands of Pacific Command meet with the vice chiefs of their respective Indian Services to promote exercises, training and other areas of interest.

Our key security assistance programs with India are IMET and the provision of engineering support to the Light Combat Aircraft project. Given the importance we attach to IMET as a vehicle for building military ties on a personal, as well as institutional level, we are seeking to increase the level of IMET funding for India from about 200,000 in 1995 to 364,000 in 1996.

The bottom line is that U.S.-Indian defense ties are better now than at any time in the past 30 years.

Turning to Pakistan. Despite the cutoff of foreign military sales under the Pressler Amendment in October, 1990, U.S.-Pakistani military-to-military relations have remained cordial. During the Secretary's visit to Pakistan last January, a decision was made to reestablish the U.S.-Pakistan Consultative Group as a forum for DOD/MOD level discussions on security issues. The first meeting of the reestablished Consultative Group was held in Washington in May 1995. In addition to an exchange of threat perceptions and foreign policy perspectives, the agenda included discussions of mil-to-mil activities, including exercises and presentations on peacekeeping, counternarcotics and counterterrorism. We expect the Consultative Group to meet again next fall in Islamabad.

The U.S. Central Command's combined military exercise program with Pakistan involves approximately eight exercises each year and includes naval surface, naval air, ground force and special operations exercises.

Each year, U.S. officers attend the Pakistan Army Staff College and the Pakistan National Defense College, and Pakistani officers attend similar U.S. installations.

The enactment of the Brown Amendment will provide an opportunity to broaden certain aspects of the U.S.-Pakistani security relationship. Under this legislation, restrictions on assistance to Pakistan contained in the Pressler Amendment have been clarified to commit greater cooperation with Pakistani military forces in counternarcotics, counterterrorism and peacekeeping activities. Additionally, the Brown Amendment permits assistance of purposes of facilitation mil-to-mil contacts, training and humanitarian and civic assistance projects.

Turning to Bangladesh. While it is not as robust a relationship, U.S. and Bangladesh forces have positively interacted for a number of years, most visibly during Operation Sea Angel.

Our security assistance program for Bangladesh seeks to train about 15 students a year under IMET, for which Bangladesh received approximately 200,000 in 1995 and 258,000 has been requested for 1996.

Military equipment provided through FMS is limited to material with direct application for civic action and disaster relief. In that regard, some \$14,000,000 worth of excess equipment was delivered by DOD in the wake of the 1991 cyclone.

The U.S. Pacific Command and the Bangladesh military participate in several exercises each year. The U.S. defense ties with Nepal, Sri Lanka and the Maldives are even more limited, primarily to small IMET programs.

Due to the ongoing civil war in Afghanistan, the Department of Defense participation and involvement there is quite limited.

Let me note that one traditional aspect of military cooperation, which DOD is not pursuing in South Asia, is the area of arms sales. Arms sales to Pakistan, of course, continue to be prohibited under the Pressler Amendment.

In the case of India, we have abstained from major arms sales that might alter the existing military balance of forces and have made clear to quote Secretary Perry, "That this will not be an area for immediate bold steps."

In the balance of my presentation, I would like to offer my views on the impact on U.S. security assistance in South Asia on the pending revision of the Pressler Amendment. From reading the Indian and Pakistani press, it appears that there is a considerable misunderstanding of the legislation on both sides. In that regard, we realize that the Brown Amendment has been viewed with considerable concern and suspicion in India. I would hope that this hearing will serve to ease those concerns by clarifying a number of apparent misunderstandings.

Let me first of all emphasize the Brown Amendment will not re-establish an arms supply relationship between the United States and Pakistan. Under Brown, a one-time-only exception to the Pressler Amendment will permit us to release about \$370,000,000

worth of military equipment that has been embargoed under Pressler sanctions.

A second Brown-related concern is that the military equipment that we would release to Pakistan might upset the regional balance. A list of the equipment to be released is attached to this written statement. We have carefully reviewed the items on this list and have concluded that releasing it to Pakistan will not upset the Indo-Pak conventional arms balance. I would be happy to respond in more depth to any questions regarding the impact of specific items to be released. My written testimony already does that.

I would emphasize that in regard to the Pakistani F-16s we have no plans or intention to deliver them to Pakistan, unless it complies with the Pressler Amendment. Instead, we are seeking to resolve the F-16 issue by selling the aircraft to a third country and returning the proceeds to Pakistan.

While the Brown Amendment does not permit a reestablishment of an arms supply relationship, it does permit us to provide limited military assistance to Pakistan in areas of great importance to the United States.

As I indicated earlier, the Brown Amendment will enable the Department of Defense to work more effectively with the Pakistani Armed Forces in peacekeeping, anti-terrorism and counternarcotics. We believe such cooperation will serve the United States as well as Pakistani interests. Authority to facilitate military-to-military contacts and training to include reestablishing the IMET program will enable us to engage the Pakistani military more effectively.

In closing, I would like to emphasize that the Department of Defense views South Asia as an important region for a number of reasons, most importantly because of the potential for nuclear conflict.

We believe that we can best pursue our interests in the region to include nuclear and missile non-proliferation by engaging the militaries of the various countries of the region, particularly those of India and Pakistan.

To that end, I am pleased to report that this Administration has made important and substantial progress in our military relationships with the countries of South Asia.

I am happy to respond to your questions.

[The prepared statement of Mr. Riedel appears in the appendix.]

Mr. BEREUTER. Thank you, Secretary Riedel. Congratulations, you finished right on the button for 10 minutes.

I would begin the questioning by asking you, Secretary Raphel, what role, if any, do you think the United States has in helping to find a solution to the Kashmir problem?

Ms. RAPHEL. Mr. Chairman, as I have said in my statement, we have repeatedly said that we are willing to play a facilitative role, if all parties welcome that, particularly India and Pakistan. Up to this point, Pakistan has and India has not.

But failing any kind of direct role and let it be said that I am not promoting that, what we have tried to do is to stay in touch with all the parties, the government of Pakistan, the government of India, the Kashmiri leadership, the various Kashmiri leaders themselves, to urge forward-looking thinking, compromise, political solutions.

Specifically with the Pakistanis, I repeat, we have urged them to do everything they can to stop military support for the Kashmiri militants going across their borders. This only enhances, rather than reduces tensions.

We have urged the government of India to engage politically with Kashmiri leadership. We have provided a forum, what we call track two diplomacy for Indians and Pakistanis to talk, private sector people to talk about the issues that concern the two countries and Kashmir, of course, is on that list.

So on the margins and in our bilateral diplomacy, we are urging people to lean forward, to look to the future and not to the past and to get this resolved as soon as possible. I think it is a drag on the whole region, particularly on India and Pakistan.

Mr. BEREUTER. Thank you. My second question and I guess probably my last question under the limit is addressed to both of you.

My overall impression from listening to your statements is that the U.S. effort is not having much impact on the decline in Indo-Pakistani relations and the movement toward the deployment of nuclear weapons and ballistic missiles.

I would ask, is that a fair characterization of the issue and if it is—if, in effect we are not having a positive impact on these two crucial issues, problems—what other options are being considered by the Administration?

Secretary Riedel, would you like to go first, since it is first and foremost a security question?

Secretary Raphel, if you wish.

Ms. RAPHEL. In my prepared statement, I was trying to make the point that there are core security perceptions, both in Pakistan and in India that make both governments think they need a nuclear option and the trimmings, delivery systems, ballistic missiles and so on.

It is very hard for an outside power to change those core security and threat perceptions and those definitions of what national security means for another sovereign state.

But that being said, I think we have made a certain amount of progress in recent years in shedding light again on the margins of how these countries view, for example, the potential for ballistic missile systems. What would that mean for the region.

I think for a long time, people thought that there was no concern here. There was no potential slippery slope. I think we have gotten the attention of both countries on that particular point.

Similarly, on the nuclear side, with all that we have engaged in with the Russians on nuclear disarmament and so on, there are examples out there of how to handle these issues, of how threat perceptions can evolve.

So, I think there has been quite a bit of education that has gone on, even though we have not touched the core issues.

Mr. BEREUTER. Secretary Riedel, do you care to respond?

Mr. RIEDEL. If I could just add one point. When this Administration came into office, our relations with the respective military and defense establishments of both India and Pakistan were really quite small.

With India, because of the cold war, we had basically had a distant relationship for some time. With Pakistan, because of their ac-



tions which led to the Pressler Amendment, a well established relationship had been considerably atrophied.

What we have sought to do is try to get those relationships started up again, and begin a program of engagement, but it is going to take quite a long time.

In the process of that engagement, we hope that we will be able to give them insights from our own experience in the cold war and in other areas which may help them in thinking their problems through in more realistic ways.

But it is going to be very difficult. For example, when we met with our Indian counterparts this September, one member of their delegation noted it was his first visit to Washington versus 19 previous trips to Moscow.

So, we had a great deal of hard work there to do to start convincing him of the value of a relationship with the United States.

Mr. BEREUTER. Without objection, I think Mr. Berman wishes to swap his time with Mr. Ackerman as a personal courtesy; is that correct, Mr. Ackerman?

Mr. ACKERMAN. Thank you very much and Mr. Berman, thank you very much as well.

We have gone through a rather testy period of going through the Brown Amendment here in the Congress, which was basically packaged to us as a one-time exception to the Pressler Amendment.

I note that Secretary Riedel has taken great pains to restate that in his testimony and to cite the President's policy as a reason for that, claiming that this is and I will quote from page nine of the testimony, "A one-time exception to Pressler to permit the release of the embargoed equipment.

"I want to assure all concerned that there will be no arms supply relationship with Pakistan until such time as the requirements of the Pressler Amendment are met in full. That is, until the President can certify that Pakistan does not possess a nuclear weapon."

I just wanted to check with you, Secretary Raphel, to make sure that the State Department and the Defense Department are reciting from the same hymnal and that it is your view as well that this is a one-time exception to Pressler, as was packaged to us.

Ms. RAPHEL. Absolutely, Mr. Congressman.

Mr. ACKERMAN. Thank you very much. I just wanted one other further clarification, if I might. In response to the Chairman's question and I am not sure which of you said it at this point, but it was that India had rejected outside assistance in settling the Kashmiri dispute and that Pakistan had not.

Did you mean to say that Pakistan was looking toward internationalizing the dispute and India wanted to not do that or that India rejects any suggestions or support or enabling vehicles that might be suggested or proposed by friends on the outside?

Ms. RAPHEL. I simply meant to say that Pakistan has over the years urged us to become involved to help resolve this dispute. India sees it purely as a bilateral dispute with Pakistan. We are not putting a value judgment on that one way or another.

Mr. ACKERMAN. But indeed you do speak with the Indians about the Kashmiri issue and exchange views as well as with the Pakistanis?

Ms. RAPHEL. Indeed we do.

Mr. ACKERMAN. Thank you. I have no further questions.

Thank you, Mr. Chairman.

Mr. BEREUTER. Thank you. The gentleman from California, Mr. Rohrabacher.

Mr. ROHRABACHER. Thank you very much, Mr. Chairman.

Secretary Raphel, I characterized the Kashmiri problem as a fundamental to bringing peace to South Asia. Do you think I overstated that?

Ms. RAPHEL. No, Congressman.

Mr. ROHRABACHER. I am sure the people of India and the people of Pakistan want to put this dispute behind them and the peoples would like to do that.

Am I incorrect and again I am honestly asking this because I may have wrong information or misreading things, are we not just basically talking about some sort of plebocite that could be offered to the people of Kashmir to determine what they want?

Would that not basically solve people's problems there?

Ms. RAPHEL. To be fair, I think it is a little more complicated. The earlier U.N. resolutions called for a plebocite.

Some Kashmiris and the government of Pakistan have, over the years, urged that those resolutions be implemented. The difficulty is that a lot of history has gone by since that time, No. 1.

No. 2, the government of India, at this time, does not share the view that those resolutions are still relevant and third, in practical terms, as I said in my statement, it is time to move forward, not to look to past prescriptions, but to come up with a prescription that fits the situation on the ground and current political realities.

Mr. ROHRABACHER. There is nothing that fits any formula better than a free election, as far as this Congressman is concerned.

If people do not have the right to determine their own destiny, they will turn to violence and that is exactly what has happened in Kashmir.

To the degree that there is terrorism that exists and we should oppose terrorism, we as Americans do not believe that people should be shooting police officers or businessmen or whatever and we do oppose that and I oppose that. I think it is wrong.

To the degree that people are not permitted the right of the ballot, they quite often and I think history shows us, they will turn to the bullet.

I would hope that this spiraling waste of money that is going on in this horrendous arms race and for these people an extra two or three million dollars or \$20,000,000 for a couple of jets means a lot more to their standard of living than it does for the American people and we do not want to waste our money on weapons that are unnecessary.

So, I do not have any complaints about the way the Administration has been handling it, but I would say that whether we are talking about the Pressler Amendment or the Brown Amendment or whatever it is, these things would not be relevant, if we could just give the people of Kashmir a vote and then things might settle down there.

One other issue very quickly. I have spent a lot of time and effort, as you know, trying to find an end or some solution to the situation in Afghanistan.

Some people in Afghanistan involved in this arena have been suggesting that perhaps there has been some opposition from our own government to the King of Afghanistan returning, if the course of events leads in that direction.

Do you have any position on that? Does the Administration have an official position on that?

Ms. RAPHEL. Can I just make one comment on your previous statement? One, to say that we certainly share your concerns with resources going into military equipment and so on. Totally share that.

But it is a little more complicated than just having an election. It does depend on the frame of reference, what is on offer, what is being voted for or against, all of those complications come into play.

So I want it to be registered that we recognize that it is a little more complicated than that.

Mr. ROHRABACHER. Usually when you are working with diplomats and lawyers, things get very complicated. Go right ahead.

Ms. RAPHEL. On Afghanistan, let me repeat. If the former King of Afghanistan were to be accepted and requested to return to Afghanistan, if the Afghan people would like to have the former King come back, the transitional figure as I have heard a lot of Afghans suggest in recent months, by all means it is not our place to object and frankly whatever works, again, to bring that sorry chapter to an end we would certainly support.

Mr. ROHRABACHER. Thank you very much. Thank you, Mr. Chairman.

Mr. BEREUTER. Thank you, Chairman.

The gentleman from American Samoa, Mr. Faleomavaega.

Mr. FALEOMAVAEGA. Thank you, Mr. Chairman.

Madam Secretary, we all know that India does have nuclear capability, even though it exploded only one nuclear device. Some have even estimated that India now probably possesses 80 nuclear warheads or nuclear bombs, if you want to call it that.

By somewhat of a contradiction in my reading, we are trying to restrict Pakistan from having similar capability. Of course it is in Pakistan's national interest, the fact that they are somewhat militarily imbalanced if India has the upper hand as far as nuclear testing is concerned or having nuclear capability.

I just wanted to ask you, we are trying to tell Pakistan that they cannot do this, but we continue to allow France to continue its nuclear testing program to improve its missile delivery system and I wanted your comments on this.

Ms. RAPHEL. If I may stick to the South Asian context. In our view, both India and Pakistan are now nuclear capable.

Legislation has focused on Pakistan in the past, because India exploded a nuclear device before the relevant legislation came into play and because it is widely perceived that Pakistan developed its nuclear capability by importing technology parts and so on and so forth.

Mr. FALEOMAVAEGA. Madam Secretary, do you see the sense of hypocrisy that we are faced with here? India needed only to prove to the world that it also has nuclear capability by exploding just one device.

The Prime Minister of India appealed to the United Nations that we want to clear of anything dealing with proliferation of nuclear bomb, warheads or whatever you want to call it.

But not the super powers that have the capability. No, we cannot do this. No, we have to continue having a nuclear capability as a deterrent. This is the magic word that we are using all over now. It is a deterrent.

Now, whether you call it history or what, this is what we are faced with here. What right do we have to tell Pakistan that it cannot do this when militarily it does not have the capability, simply because India has the upper hand as far as nuclear capability is concerned?

Ms. RAPHEL. We are not talking about rights or wrongs here. We are talking about a practical problem of how we respond to the fact that both India and Pakistan, neither of which are signatories to the NPT, neither of which are declared nuclear powers, have a nuclear capability and how we can best work in the region, work individually with those countries, with the region as a whole to make sure that this capability does not move beyond the region and is contained within those countries.

It is not a question of what is right or wrong. It is a question of what is in our interest and what is in the interest of global stability and regional stability.

Mr. FALOMAVAEGA. I notice Secretary Riedel did mention that in our IMET program we are giving \$200,000 to Pakistan militarily. This is not even the worth of one tank. Is this a joke?

Mr. RIEDEL. This goes for training programs to allow Pakistani officers to take training courses in the United States.

We find over the years that IMET programs are among the most successful ways of helping to encourage foreign military officers to have a better understanding of how the American system works, of understanding American concerns about global issues. Penny for penny, it may be one of the most effective programs we have.

Mr. FALOMAVAEGA. So my concern here, Madam Secretary and Mr. Secretary, is that we all know that the five members of the nuclear club have the capability, but they do not even agree among themselves how we should go about controlling this proliferation of nuclear arms race.

So we are telling Third World countries we cannot do this and yet the super five members cannot even agree among themselves on how to best address that issue. That is my question.

My time is done. Mr. Chairman, thank you.

Mr. BEREUTER. I will regard that as a rhetorical question in light of the previous one. Is that all right?

Mr. FALOMAVAEGA. I did make it as a question. It was just a slight observation of what is happening.

Mr. BEREUTER. The gentleman from California, the vice-chairman.

Mr. ROYCE. Thank you, Mr. Chairman.

I am going to ask if my full opening statement and referenced articles could appear in the record. Thank you, Mr. Chairman.

There have been repeated reports in the press of Chinese M-11 missile transfers to Pakistan. These reports include quotes from

U.S. intelligence sources that we have photographs of M-11 missiles in shipping crates at Pakistan military installations.

The Administration continues to take the view that conclusive evidence of the transfer is not available. It is my understanding that if the Administration were to have conclusive evidence of the transfer, then sanctions would be triggered against China.

I would like to know what the Administration would consider conclusive evidence of the transfer. That would be my first question.

Second, there is a feeling by many of us in Congress that the Administration is unwilling to act on the intelligence we do have, because it would further complicate our relations with China.

On October 18, 1994, President Clinton had stated and I quote, "There is nothing more important to our security and the world stability than preventing the spread of nuclear weapons and ballistic missiles."

By failing to act on the M-11 transfers from China to Pakistan, is the Administration now taking the position that assuaging the Chinese is more important than our non-proliferation policy?

Ms. RAPHEL. Congressman, you correctly report or cite the Administration's view that we do not have conclusive evidence that China has transferred M-11 missiles to Pakistan.

We do have a lot of evidence. I do not want to get into it in this kind of forum, but it is not conclusive evidence.

China and Pakistan have both said to us that China has not transferred and Pakistan has not received MTCR class missiles. That statement you can evaluate in many different ways, but for the record, that is their official position.

I would say again, we do not have conclusive evidence. If we did, sanctions would come into play, both against Pakistan and against entities in China that had transferred these missiles.

Mr. BERMAN. Will the gentleman yield?

Mr. ROYCE. Let me ask one question and then I will yield.

Would photographs be conclusive evidence? Then I will yield to the gentleman from California.

Ms. RAPHEL. I would prefer not to get into defining what would be conclusive evidence. Again, in a different forum we would be happy to discuss it.

Mr. ROYCE. Let me yield to my colleague, Mr. Berman.

Mr. BERMAN. The one question I wanted to ask was, does the Administration consider the M-11 to be a missile within the scope of the missile technology control regime? Does our Administration, the United States, consider M-11 to be such a missile?

Mr. RIEDEL. That question is also not as easy to answer as it first appears, because much would depend on the precise missile that we were talking about, which is why it is difficult to enunciate exactly how we would know you have violation of the MTCR regime. It would require an abundance of intelligence of different kinds.

Mr. BERMAN. My question was, if it could carry a certain amount of weight a certain distance, it was covered. I am sorry to take the gentleman's time.

Mr. RIEDEL. In broad terms that is correct. When we have seen the missile tested in China, it has gone that kind of distance. The

question is, we cannot know what type of that missile might be exported, if it has been exported.

Mr. BEREUTER. The time of the gentleman has expired. Perhaps the gentleman from California would want to yield on his 5 minutes. He is finished? All right.

The gentleman from California, Mr. Berman, then is recognized. Mr. BERMAN. Thank you, Mr. Chairman.

I might say in sort of following up on Mr. Faleomavaega's questions and I think the response. We are not dealing here with questions necessarily of rights or hypocrisies.

We had a treaty regime signed at a certain point. Certain states were not initial signatories and Pakistan was not one of them. People not in the "nuclear club" have frequently raised with us the hypocrisy of the distinction between the haves or the have nots.

That does not take away from U.S. interest in limiting the number of nuclear powers or in any way, I think, undercut the importance of non-proliferation regimes, but there was a quid pro quo thrown out, which was, why do not you guys who are in the club stop testing?

India and Pakistan, as I understood it, at least at one point accepted that position. Now I understand that in recent months there seems to be some backing away by both countries from the support for a comprehensive test ban treaty.

I was wondering if my information is correct, if you could comment on it, what we are doing about it, is this accurate?

Ms. RAPHEL. Let me say a couple of things in response to that. Over the last couple of years, both India and Pakistan have cooperated with us in our pursuit of a comprehensive test ban and fissile material cutoff treaty.

In recent months, since the NPT review conference, there seems to have been some re-evaluation of support, particularly for the comprehensive test ban.

In part, this is because there is the feeling among some that there is no definitive government of India or government of Pakistan position that has changed on this. But there is certainly the feeling among some that indefinite extension of the NPT treaty means that there is now not enough incentive for the nuclear powers to proceed in a time-bound manner with nuclear disarmament.

Therefore, there is talk about holding the CTBT and the FMCT treaties, which the nuclear powers care about, hostage to some kind of nuclear disarmament schedule.

You hear talk about this in India. Certainly now among defense experts. To a degree in Pakistan. So that is definitely out there.

Mr. BERMAN. But it is not an official government position.

Ms. RAPHEL. It is not an official government position at this point and needless to say, we are working with both governments to persuade them of the need to move quickly on both of these treaties and not to tie them to any other activities in the committee in disarmament.

Mr. BERMAN. Thank you.

I gather from your testimony that the F-16s are now a dead issue.

Mr. RIEDEL. In terms of delivering them to Pakistan, yes. We are still seeking—

Mr. BERMAN. I understand countries and the money, but in terms of F-16s to Pakistan that is over with. It is not an annual re-assessment. A decision has been made.

Mr. RIEDEL. A decision has been made.

Mr. BERMAN. And communicated today, if not before.

Mr. RIEDEL. We are actively seeking to find a buyer to take them.

Mr. BERMAN. But the decision is not conditioned on finding a buyer.

Mr. RIEDEL. No.

Mr. BERMAN. Thank you.

Mr. BEREUTER. We will come back to the gentleman if he wishes. I will say to Mr. Funderburk, under the subcommittee rules I have to recognize the gentleman first and then I will come immediately to you.

The gentleman from Ohio, Mr. Brown.

Mr. BROWN. Thank you, Mr. Chairman.

Ms. Raphael, you mentioned the threat to stability posed by ethnic conflicts that have interstate aspects, specifically Kashmir.

That I believe should also include Punjab. All of us receive faxes and materials regularly that make wild, unsubstantiated claims about the situation in Punjab from something called the Council of Kalistan.

The Council of Kalistan is registered with the Department of Justice under the Foreign Agents Registration Act.

Curiously, the Council of Kalistan lists its address the "Golden Temple Omishar". Earlier this year, a member of my staff visited the Golden Temple on a trip to Omishar, where he met with the head of the temple, who told him categorically that no such organization exists there at the Golden Temple. In fact, no one at the Temple had even heard of the Council of Kalistan.

We found out that G. S. Aleck, the Council's lobbyist, made a sworn statement in his Foreign Agents filing that the Council has no budget, except goods and services of less than \$6,000 a year, provided by the international SIKH organization.

We wonder where the Council of Kalistan gets its operating funds. More important though is the leadership structure of the Council. In 1988, Mr. Aleck said he was appointed by the President of the Council of Kalistan in 1987 by the five-member pontia committee of the Council of Kalistan.

Mr. Chairman, the State Department's report patterns of global terrorism states that "SIKH terrorism is sponsored by expatriate and Indian SIKH groups. Many of these groups operate under umbrella organizations, the most significant of which is the second pontia committee."

An article in the Indian Express of October 8, 1987, which Mr. Aleck attached to his first Foreign Agent Registration filing, the Council is composed of several known SIKH terrorists, including Mr. Satana Singh Pontanata of the group Dowcowsa who hijacked an Indian Airlines airplane.

The article also states that the managing apparatus of the Council of Kalistan is comprised, among others, of a group known as Babar Cowsa, which has claimed responsibility for the assassina-

tion of the Punjab Chief Minister, Bhan Singh and 12 others in downtown Bangor.

Secretary Raphael, I have two general questions. Let me just ask both of them and then if you would answer both of them the remainder of the 5 minutes.

First, considering the volatile situation in the whole subcontinent, is the United States concerned about the India Express report of ties between the Council of Kalistan and known terrorist organizations?

Second, do these reports suggest to you that the Council of Kalistan and Babar Cowsa work to undermine stability in the Punjab region of India?

Ms. RAPHEL. Let me comment generally. I do not want to speak in any detail about the activities of the Council of Kalistan, because I am not intimately familiar with them.

Obviously we are concerned about any acts of terrorism and groups that support terrorism, but I cannot comment specifically. If you would like, I can take the question and do some research on it.

I would say about the Punjab in general that the levels of violence have been way down in recent years. Obviously an exception was the recent assassination of Chief Minister Bhan Singh. My hope is that that is the end of an era rather than the beginning of another one.

There are some problems that continue there of a human rights nature, one of them being the disappearance of a human rights worker called Jaswat Singh Kowra.

The National Human Rights Commission in India has been investigating that and we are following that case and looking into that case and have raised it with the government of India.

But by and large, the militancy, the excesses on the part of the police all have died down tremendously in the last couple of years.

Mr. BROWN. Mr. Chairman, one other question briefly.

Madam Secretary, a few months ago I asked you about what I thought was an omission in the State Department country reports. You assured me that you would look into the matter of the Pandat people in Kashmir and why their plight is not mentioned in the reports.

Can you bring our subcommittee up to date on what you have done to look into that and to include it in the country report?

Ms. RAPHEL. When we say that a resolution of the Kashmir issue needs to take into account the wishes of the Kashmiri people, we mean all the people of Kashmir, whether they are Muslims or Hindus, whether they are from the valley, whether they are from Ladakh or Jammu. All the people of Kashmir. I think that distinction is often missed and misunderstood from what we have said.

Second, we have indeed looked into the situation of the Pandats. We actually have periodically looked into it, visited the camps and so on.

In the upcoming human rights report an assessment of their situation will be included. The report will come out early next year.

Mr. BROWN. Thank you.

Mr. BEREUTER. I thank the gentleman.



The gentleman from North Carolina, member of the full committee, has joined us today. We are pleased to have him for his questions.

Mr. FUNDERBURK. Thank you very much.

Secretary Raphel, it is my understanding that Pakistani Prime Minister Bhutto was in Tehran for a visit with Iranian President Rafsanjani on the very day that Israel was burying its slain Prime Minister.

What was the purpose of her visit and what is the United States supposed to make of the timing of this visit?

Second, speaking of Pakistan and its relationship with Iran, I note that in February, 1994, Pakistan conducted joint naval exercises with Iran. Which other countries have conducted such military exercises with the Iranians since the fall of the Shah?

Ms. RAPHEL. Let me first repeat our policy, which is to encourage all countries and including those in South Asia, to help in the effort to isolate Iran. So Pakistan, India and all countries in the region are very much aware of that policy.

As for Pakistan, they share a border with Iran. They believe that they need to have cordial relations with Iran. They are more recently concerned about developing the Indian relationship with Tehran.

Also recently their interests have come to blows, both in Afghanistan and in central Asia. I know from my recent travels in Pakistan and discussions with officials that they have been particularly concerned about their tensions over Afghanistan.

It is my understanding that that was one of the key things on the agenda when Prime Minister Bhutto went to Tehran in early November.

Mr. RIEDEL. Let me address the question about naval exercises. Pakistan has conducted what we regarded to be an extremely low level naval exercise. Communications between ships at sea primarily.

They have postponed a second exercise. I can also say that we have raised this matter with the Pakistani Government, both here and in Washington and urged them to cease this activity.

As for other countries, India and Iran have indicated publicly that they plan on holding a naval exercise and we have also raised that question with the Indian Government.

I will have to check and see if any other governments have held naval exercises with Iran in the last 15 years. I do know that several of the Gulf states have had Iranian naval vessels do official port visits and the Iranians sometimes have characterized those as exercises.

[The information follows:]

During the last 15 years, Iran has participated in naval exercises with the following countries: Pakistan, India, Oman and the UAE.

Mr. FUNDERBURK. OK. Pakistan does not recognize Israel and participates in the Arab boycott of Israel. Do you have any indications of any changes in that?

Ms. RAPHEL. This is an issue which we raise regularly with the Pakistanis. Bearing in mind the sensitivities of their Muslim population and the coalition partners to the current government, they

have been conservative and in our view a bit slow in moving to recognize Israel.

We had urged them early on to be in the forefront of countries that took that step and sadly it looks like they are going to be among the latter.

Mr. FUNDERBURK. Thank you.

Mr. BEREUTER. I thank the gentleman.

For a final question, I turn to the gentleman from California.

Mr. BERMAN. In terms of Iran and these countries, I have heard something about a pipeline deal between Iran and Pakistan and India all coming together on a pipeline which would provide Iranian oil to these countries. Do you know about that?

Ms. RAPHEL. There are lots of pipeline plans in the region. To my knowledge, none of them have yet to come to fruition. There are talks about pipelines from Turkmenistan through Afghanistan to Pakistan and possibly on to India. From Iran through Pakistan and on to India.

Lots of talk. Lots of gas and oil to be exploited, but no deals have come through. I think part of the reason that this could all be slow in happening on the Iran side is of course our own prohibition against U.S. companies participating in any such deal.

Mr. BERMAN. That is not the subject of this hearing. There are other companies in other countries that seem quite happy to step up to the plate.

In this particular area, oil and gas is how Iran gets the currency to buy the technologies, to develop the missiles and nuclear bombs and finance the terrorism and destabilize things and buy offensive weapons capability to scare the other gulf countries.

So I just hope we are watching those things particularly, I mean not to diminish the importance of these exercises, but particularly those that provide them with that foreign currency to do that or enhance their ability to get that foreign currency. Thank you, Mr. Chairman.

Mr. BEREUTER. Thank you.

I want to thank our distinguished witnesses for their time today for the responses to our question. We have, I feel, barely scratched the surface and we have focused understandably mostly on India and Pakistan.

There are a number of questions that members undoubtedly would like to submit for you in writing and I would appreciate it if they could be responded to. I will have some myself.

Mr. Andrews specifically mentioned he has a conflict here and will be submitting one written question to you two panelists. Thank you very much for your attendance.

Ms. RAPHEL. Thank you, Mr. Chairman.

Mr. RIEDEL. Thank you.

Mr. BEREUTER. We will now call forward the second panel. As we do that, I want to make it clear that the Chairman's intention is that we improve relationships with Pakistan and India.

I do not think at all they are mutually exclusive and that has been my long-term and continuing objective.

The second panel consists of very able and well qualified experts on South Asian security issues. Professor Robert Wirsing, from the Department of Government and International Affairs at the Uni-

versity of South Carolina has an extensive record of publications on India-Pakistan political and security affairs and has traveled to the region for research on numerous occasions.

Mr. Michael Krepon is president of the Henry L. Stimson Center and an expert on confidence-building measures and other mechanisms for preventing conflict, with an extensive publication record.

By coincidence, on November 30 Mr. Krepon published a very timely and articulate article in the Washington Post, which argues that preventive diplomacy in South Asia should be an urgent priority of the U.S. Government.

Last, but certainly not least, we will hear from Dr. George Tanham, a retired vice president of the RAND Corporation who continues to serve as a consultant on projects related to today's hearing.

Earlier this year, Dr. Tanham completed a RAND study of the Indian air force and he has recently spent several weeks in both India and Pakistan as a part of his ongoing research on regional security affairs.

In addition, another invited witness who was committed elsewhere, Dr. George Perkovich of the W. Alton Jones Foundation has taken the trouble to write me and convey what he would have said had he been able to be here today.

If there is no objection, I would like to insert Dr. Perkovich's letter in the hearing record, provided Dr. Perkovich also has no objection.

[The letter appears in the appendix.]

Mr. BEREUTER. On behalf of my colleagues I want to thank all of you for taking a lot of time out of your day to be here to testify. We look forward to your testimony.

Your entire statements will be made a part of the record. I would ask if you would try to summarize in approximately 5 or 6 minutes each and then we would like to have an opportunity to engage in a little questioning of the witnesses.

Thank you very much. I think we will turn first to Dr. Wirsing. You may proceed.

**STATEMENT OF DR. ROBERT G. WIRSING, PROFESSOR—DEPARTMENT OF GOVERNMENT AND INTERNATIONAL STUDIES, UNIVERSITY OF SOUTH CAROLINA**

Dr. WIRSING. I want to thank you, Mr. Chairman, for the invitation to appear before the subcommittee and to offer my testimony in regard to the security situation in South Asia.

I prepared a fairly lengthy statement and so I will confine myself to some parts of it which I think have some pertinence to the remarks that we have already heard today.

One thing one quickly notices at a hearing on South Asia is a rather high level of frustration with the Administration's efforts over the years to persuade these two countries, India and Pakistan, to overcome their differences and to proceed toward the next century with a somewhat friendlier relationship.

Complaints are made about human rights violations by Indian security forces in Kashmir and elsewhere. We also hear complaints about Pakistan's infiltration of what India regards as terrorists into the valley of Kashmir.

We have heard complaints too about India and Pakistan's inability to successfully negotiate, for instance, even over an uninhabited stretch of Kashmir, the Siachen Glacier, in spite of the fact of having spent some 6 years or so engaged in on and off negotiations in regard to it.

I would like to offer some reasons to explain why these two countries are constrained from doing what we believe they ought to do for their long-range security.

To begin, the domestic political circumstances that both countries face, place their governments under enormous handicaps that are not easily avoided.

One reason for this that I offer in my prepared statement is the widening political instability that is found throughout South Asia and certainly in Pakistan and India.

By instability, I mean a number of things. One is the fact that the governments come and go. Another is that these governments face on both sides of the border an assortment of ethnic, linguistic and tribal upheavals that keep these countries in constant turmoil, faced with acts of terrorism and so forth.

Whatever country you are investigating in South Asia, you find the governments tend to be weak. India and Pakistan are now both more or less functioning parliamentary democracies. Nevertheless, in both cases, the governments face strong opposition and have great difficulty in hanging on to their wafer thin majorities in the Parliament.

This situation, I believe, is very deeply rooted in the politics of the subcontinent and is not going to disappear in the near future.

Indeed it may grow worse, and I suspect then that our frustrations will be heard here again at future hearings. In India, for example, this question of political stability is of obviously enormous interest, because if the region's democratic parliamentary institutions are to survive into the next century, they must certainly survive in this most pivotal of all the region's states.

But in the election that is expected to be held at the end of April, 1996, India's 11th general election, most predictions are that we are likely to get a hung Parliament, with the ruling Congress party receiving even less political support than it has in earlier elections.

The Hindu nationalist party, the Bharatiya Janata Party or BJP, just within the last 10 days has had a sweeping victory of local municipal polls in the key state of Uttar Pradesh, the most populous state in India, with 140,000,000 population. It would be a very large nation if it were independent.

That is just one more of a whole lot of signs that have come along in the last year or so that the Congress party, which has given a certain amount of continuity and stability to India over the past 48 years, may be on its last legs.

But at the same time there is no sign on the horizon that there is any party in India with the strength to acquire a majority of the vote or a majority of the seats in the Parliament.

So, it may very well be that in the years ahead, we are going to face an even weaker government in India, a government that is even less able than the one at present to take the kinds of steps we think are necessary to improve relations with Pakistan and to enhance general regional security.

It is well to bear in mind in this connection that Prime Minister Narasimha Rao's effort to hold state assembly elections in Kashmir, which I believe is an absolutely genuine and sincere effort on his part, has so far come to naught.

Indeed, the concessions that he offered to the Kashmiris in order to bring them on board these elections were quite modest. For instance, he offered to allow the Chief Minister of the state to bear the designation of Prime Minister, rather than Chief Minister.

That, of course, is hardly a gesture. It is purely symbolic. That wouldn't truly restore the autonomy of the state of Jammu and Kashmir. But even that was too much for the political opposition in India, which immediately shouted that India would then be the only country in the world with two Prime Ministers.

So, the Prime Minister of India has an enormous difficulty in making even the smallest gestures that might entice the Kashmiris to move toward some kind of settlement with India.

The other aspect of the domestic political circumstances which I would mention, and which I think is characteristic of and likely to continue in South Asia, is the prominence of what I call identity politics.

By identity politics, I mean the politics of ethnicity, race, tribalism and of course religion. In the subcontinent, I believe that religious identity politics, religious nationalism, now figures at the top of the political agendas of practically every state.

This statement certainly applies in Pakistan, which is a self-designated Islamic republic. This is so in spite of the fact that over the past 48 years the hardline Islamic parties in Pakistan have never attained control of the government and, indeed, in the most recent 1993 election did very, very poorly, receiving about 3 percent of the popular vote.

Nevertheless, in a country where Islam evokes very powerful religious emotions, the religious and Islamic issues, of which Kashmir is a very obvious one, are extremely powerful and could at some point in the future cause an upsurge in the importance of Islamic identity in Pakistan's politics.

Of course, should it happen that in April 1996 the right wing Hindu nationalist party (BJP) comes to power in India, perhaps as part of a coalition, or even should it merely increase its present margin of seats in the Lok Sabha (and it is now the most powerful opposition party), that is certainly likely to inject more identity politics, more Hindu-Muslim antagonism, into Indian politics than is now there.

I will close here and will welcome any questions in this regard. [The prepared statement of Dr. Wirsing appears in the appendix.]

Mr. BEREUTER. Thank you very much, Dr. Wirsing. Your written statement is very interesting and we are not going to ignore its contents, but we thank you for your summary statement.

Next we call on Mr. Michael Krepon, the president of the Henry L. Stimson Center. Welcome. You may proceed.

#### **STATEMENT OF MR. MICHAEL KREPON, PRESIDENT, THE HENRY L. STIMSON CENTER**

Mr. KREPON. Thank you, Mr. Chairman.

This is a very troubled region. The two hearing topics that you have set up, security issues and economic issues, fit together nicely.

The trend lines in this region are negative. The more that tensions increase, the more that nuclear dangers increase, the more impact will be felt on economic development, on trade and on investment. So I am glad you are holding these hearings.

Assistant Secretary Raphel told you in her testimony that relations are bad and unlikely to improve. What she did not tell you, but which you can reasonably infer from her testimony, is that relations are likely to worsen and there are very slight prospects in the near term that things will get better.

Because of elections in India, as Professor Wirsing has said, any Indian gestures toward reconciliation toward Pakistan are not in the cards now. Any significant gestures.

In India, the Prime Minister has proposed small gestures, which Pakistan has rejected. Pakistan does not have an election scheduled until 1998.

The current Pakistani Prime Minister is making no effort that I am aware of to improve relations with India. Indeed, she has pursued a conscious policy of closing down lines of communication with India.

They still talk to one another about narcotics, but that is about it. The government of Pakistan has to make a decision whether or not closing down bilateral relations with India over the dispute surrounding Kashmir is in the government of Pakistan's national security interests.

This is a fundamental question. I am deeply disturbed by the line taken by this government of Pakistan. These two countries are not taking steps to address their threat perceptions, to ameliorate their threat perceptions in a positive way.

They are taking steps to make those threat perceptions even worse. They are on the verge of deploying new nuclear capable ballistic missiles.

Pakistan is on the verge of resuming production of weapons-grade fissionable material. It has frozen this program for several years. India has not. India continues to produce.

It is very clear from their behavior in Geneva at the Conference on Disarmament that both countries are leaving open options, rather than facilitating the prompt conclusion of treaties that they say they are all in favor of.

So we have real problems in this region and they have real problems in this region. One of the problems is that this hearing that you have set up will be interpreted by the media in India and Pakistan in very, very negative ways, as you know.

The reason for this hearing, according to Indian press commentary, will be that the United States is preparing to meddle in Indian affairs.

That is the line that will be taken as a result of this hearing. It is not that the United States is greatly concerned about security and stability on the subcontinent. No. We are laying the groundwork to meddle.

So if they do not recognize and acknowledge the problem and instead twist the problem into a very different shape, namely U.S.

intervention, that gives you a sense of the kind of roadblocks we face here.

Because states in the region are not willing or able to take big steps, important steps, it seems to me the only thing that the United States can suggest to the countries in the region is that they take small steps.

The small steps that might reasonably be taken, which are in their own national security interests, are to repair the escalation control measures that were negotiated, in good faith one hopes, by these two states and which are not being properly implemented. That is No. 1.

If they have an agreement to give prior notification of military exercises at the division level, for example, one does not take a battalion out of the division and then not notify the exercise, because it was not at division-level strength.

If one has a prior agreement with your neighboring state not to overfly certain areas around a disputed border, you do not overfly and things of that sort.

So the burden of my message to you and to the states in the region is, if you cannot take major steps, at the very least, repair and properly implement escalation control measures, re-open military-to-military lines of communication and negotiate new measures.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Krepon appears in the appendix.]

Mr. BEREUTER. Thank you very much for those specific recommendations.

Dr. Tanham, we look forward to your testimony.

Dr. Tanham is a consultant and advisory trustee of the RAND Corporation. Welcome.

#### **STATEMENT OF DR. GEORGE K. TANHAM, CONSULTANT AND ADVISORY TRUSTEE, THE RAND CORPORATION**

Mr. TANHAM. Thank you, Mr. Chairman, for inviting me.

As the last witness, a lot has been said that I would have said so I will try to limit myself to 5 or 6 minutes, and I will also try to limit myself to the areas where I disagree with the previous witnesses, which may help the discussion some.

From my perspective, when I visit Pakistan and India and I come back to Washington, the situation seems much worse in Washington than it does on the spot.

When I was in Pakistan no one was talking about war. Nobody was talking about using nuclear weapons. In fact, very few people were concerned about nuclear weapons at all.

Most Indians do not know much about nuclear weapons. First, information on the Indian nuclear program is a very tightly held secret, and two, most people just are not interested.

So I came away with an impression that things were not quite as bad as they seemed from here. That does not mean that there are no problems there. Do not misunderstand me.

Also I came away slightly more encouraged than my friend, Michael, for reasons that are more difficult perhaps to pin down than normally so.

Let me just give you an example that I found when talking with individuals in both countries, India and Pakistan, one-on-one or one-on-two or three.

I proposed on one occasion to the Paks, who have never been very receptive of this idea, that maybe they could live with the Line of Control, which has been in existence for about 47 years and has essentially been a border.

They said, well, yes, we could, but that the Indians would have to give a little, and I said, but so would you. They said, that is right, but we could probably live with it.

So there are people in Pakistan beginning to ask is it worth it all? Maybe there are ways of arranging a permanent ceasefire.

I think the problem is, and forgive me, that the politicians there are raising the problems and raising the temperature in a lot of cases.

My second impression was, and I have had this about India for some time, is that the Indian people are fed up with the confrontation.

They would like to have peace, and as several of you have said, get on with the real problems which are their economic development, social development and so on.

I detected some of this in Pakistan this time, to my surprise. Not entirely to my surprise, but there were some people there saying, you know we are wasting our time on confronting India.

I wrote an editorial on the cost of the confrontation.

[The editorial appears in the appendix.]

Many said, you are right, George, but it will not have any impact. It is too rational. So, that gives you a feel for the atmosphere there.

But I am slightly more optimistic. I do not think there is going to be a war. I certainly do not think there is going to be a nuclear war. I do not think Kashmir is going to be resolved today or tomorrow, but I also do not think that Kashmir is the major problem.

Kashmir is a serious problem and has been a serious problem since the two countries were created in 1947. But it is really part of a larger problem, I think, between a small country and a large country.

The Paks resent how big India is. They think that India has had hegemonial designs in the area and is a bully. The Indians think that Pakistan is a small upstart challenging them in the region, and should not have existed in the first place.

So there are basically a lot of psychological problems which exist even if Kashmir had never come into being, but Kashmir did come in and it has certainly acerbated those problems.

The internal situation in Pakistan I found disturbing. There is a lot of concern about the lack of governance, the corruption of the politicians, the economic problems, the decline of law and order in the Sind and spreading to the Punjab; terrorism, narcotics and a deep concern about Islamic fundamentalism also worry people.

Though it is a Muslim country, a lot of the Pakistanis are concerned about fundamentalists and they see them as a serious problem. A recent small attempted coup (September 1995), which was launched by some in the army who were more or less fundamentalists upset many Pakistanis.



I just want to skip quickly over the situation in Sri Lanka. I think the government has just captured Jafna after 12 years of fighting.

I do not know if this will end the war, but it will cause and has caused refugees. I can see that the refugee problem may cause some more problems.

India did send a force over there, as you know, from 1987 to 1990 to try to help solve the problem, but they did not succeed.

Another very serious problem is Afghanistan. That is a key country in the area. The Paks are very upset about the turmoil there, because they cannot get to Central Asia, with which they want to trade and develop closer relations.

Ethnic groups there overlap with the new Central Asian Republics, with Pakistan, with Iran and so on. The Pushtun Taliban, which the Pakistanis have formed, are a more fundamentalist group than the Tajiks in the north and the Uzbeks in the northwest.

So I think Afghanistan could be a real source of problems. The Pakistanis say the Americans want to keep it that way, and that is part of the problem.

They said if you would help us solve it, you could solve it. I said, I did not think we could solve it that easily. The British did not solve it and nobody else has solved it, but we ought to keep working on it.

Another point I would like to make is that in my opinion, there are now no vital U.S. interests in South Asia. We have interests, but they are not vital interests. We have vital interests in other places.

The closest thing we do have as a vital interest is the oil in the Gulf, and it borders on the Indian Ocean and is close to South Asia, but it is not in South Asia.

So, I do not think there are any vital U.S. interests there. There are interests and I believe these interests will increase a lot over the years.

South Asia has a quarter of the world's population. Its economies will grow, I believe. I think the nations will work out their problems and it will become an important area.

On nuclear proliferation, I do not get quite as excited as some of my friends. I tell people that no one has been killed by a nuclear weapon for 50 years. Millions and millions have been killed by conventional weapons. Nobody seems to be worried about them very much.

My guess is that conventional weapons will continue to be used in a variety of places of the world and it is highly unlikely that nuclear weapons will. I do not rule them out, but I doubt if they will be used.

I think the Indians and Pakistanis can both behave responsibly. I think they will and I think they will pride themselves on it. We may smile at that, but I believe them.

I think what is perceived by both Pakistan and India as U.S. meddling is in fact meddling. We are telling them how to treat their people, what are human rights. And how they defend themselves, etc.

Would we like it if the Indians came over here and said, look, you do not really need those nukes? Come on. Get rid of them all. You do not need them, and it is better for the world if you do not have them.

I do not think we would like that very much. I know the Indians do not either and neither do the Paks. I think it would help some time if we try to view these problems from their perspectives and it will give us a little different view of some of these things.

So I am not quite as pessimistic as my colleagues on the question, but I admit there are a lot of very serious problems and sometimes I despair whether they will work them out, but I think they will.

Thank you very much.

Mr. BEREUTER. Dr. Tanham, thank you very much. Interesting contrast in some of your views here. We appreciate hearing from all three of you.

I have a constituent in the side room I need to visit with, so I am going to turn the questioning over to Mr. Berman for about 10 minutes and I will return.

The gentleman from California.

Mr. BERMAN. Thank you, Mr. Chairman. I will try to resist the temptation to mark up a foreign aid bill while you are gone.

I guess, Dr. Tanham, your position is no problem, no interest, no hearing.

Mr. TANHAM. No, sir, I did not say that. I said, plenty of problems but not as bad as it appears from here. No, no. There are serious problems. Very serious problems. But I do not think there is going to be a war.

Mr. BERMAN. Do you think the democratic process in India is in jeopardy?

Mr. TANHAM. No. I think if you take a minute to look at it, there are 900,000,000 Indians. From 1989 to 1991, for example, they had four governments, and two national elections. All were peaceful transitions of governments.

They have a free press, free speech, a judicial system, and state elections. I think they do pretty well for a democracy, though we may laugh at it. There is a lot of corruption. We have a bit on our side, too.

But I think they do pretty well for a country of 900,000,000 people who never experienced democracy before. In over 45 years I think they have done quite well. And the Paks are trying.

Mr. BERMAN. What about the Paks and trying for a second? There is a lot of talk around about how Pakistan is ostensibly a democracy. They have an elected leader, but she really has very little power.

The military essentially is making the key decisions there. They have terrible terrorism problems. She is off doing her thing. What is your reaction to that?

Mr. TANHAM. That is the feeling of some Paks, certainly, that I talked to: that she spends too much time abroad, and she spends too much time in the arms of the Americans, and she is not paying attention to the internal problems.

Now, her defenders deny all of this. But the businessmen that I talked to, for example, said she is not paying enough attention

to the economy. One of them told me there had not been a letter of credit in Lahore for 4 months, and that is one of the big business centers of Pakistan.

Ships are tied up in Karachi. The businessmen do not know what to do, and it is going to discourage outsiders from bringing business there.

The army, I think, has behaved very well since she has been elected. They have not taken any overt actions. The chief, General Waheed, whom I talked to once, said "Mr. Tanham, we have to have democracy in this country and I will do all I can to make it work," and I think he has.

Now, he is about to retire and we do not know who we are going to get there next. (General Jahangir Karamat with a good reputation has been appointed the new chief.) So I would say that the criticisms of the government are widespread, but so are they in India, so are they in this country.

There are the problems of narcotics and terrorism. No question. I think Pakistan is going through a very difficult period and they do not have the leadership that perhaps they should have.

Mr. KREPON. Congressman Berman, if I may just add a few words there.

Mr. BERMAN. Why do you not critique the critiquer?

Mr. KREPON. I agree with George's assessment about the vitality of Indian democracy. They have problems and one of the things that I love so much about that country is they are bitterly critical of their problems.

They have problems with their democracy and their politicians and their parties and their corruption and the influence of money in politics. They have a very vigorous debate about that in their press. It is wonderful to read.

They have abuses. They work at resolving those abuses. So it is a remarkably raucous, but workable democracy.

Pakistan has a ways to go. Pakistan, unlike India, does not now have a responsible political opposition. Politics in Pakistan is war by other means and if you lose an election, there is absolutely no peace.

So the current Prime Minister, like her predecessor, has had enormous difficulty in governing the country. But one could also argue that she has not really made a very strong effort at it either.

The situation in Karachi, which is as you know the commercial capital of the country, is terrible. If you visited Karachi, you would not feel very safe.

When the commercial capital of your country is a mess, suffers terrible problems, then your whole country is in trouble. I believe and I think most Pakistanis believe that the Prime Minister has not really addressed that problem.

I think the level of fatalities in Karachi are now almost comparable to the fatalities in Kashmir. It is that bad.

There are problems, as George has said, with corruption, narcotics, terrorism. The centrifugal forces in this country are serious. So it is troubling.

On the other hand, there is a free press in Pakistan. There is an intelligentsia in Pakistan that has not given up on the country. They have not moved abroad. They are fighting the good fight.

There are people of goodwill who are trying to make this country work and they get my enormous respect.

Mr. BERMAN. What do you think about the argument that we do not really have very vital interests there? I mean, it is going to be a hard one to argue that NATO will fall apart if we do not do something. What would be your thoughts?

Mr. KREPON. I have sensed absolutely no strong interest in this country in the Congress, in the executive branch, in putting our military on the ground over there for any reason.

I think both countries need to hear that, because they still suspect U.S. designs on the region. I have yet to find——

Mr. BERMAN. This is a case where distancing ourselves can help solve problems. It is unlike Bosnia where the sort of lack of attention and American disinterest or other places where American disinterest helps problems to fester, here you are thinking American disinterest might actually be therapeutic?

Mr. KREPON. It is awfully hard to be disinterested, Mr. Berman, when——

Mr. BERMAN. The country is very large.

Mr. KREPON [continuing]. you are seeing countries that matter going down the wrong path and a path that increases nuclear danger. When you increase nuclear danger in this world, it is not just to you and your neighborhood.

Mr. BERMAN. Right. But Dr. Tanham does not think there is any real serious risk of a nuclear escalation.

Mr. TANHAM. Well, I do not, but I mean that is a matter of opinion. I do not have any information that Michael does not have and I am sure that he has what I have.

I think that people who are concerned with nuclear proliferation, I am, we all are, in a sense are worried, and I am worried, too. But I do not worry about the Indians and Paks any more than I do some other people who might have weapons.

Dr. WIRSING. Could I——

Mr. BERMAN. I wanted to ask you one thing as well and I would be interested in your response to this. Do you think the Hindu nationalist party and I forget the name of it, leadership will become the leadership of the country in the next election? Predictions are that that is a high likelihood.

Speculate if it were to, what does that mean about things like possibility of salvaging confidence building measures, things like proposing elections in Kashmir, some of the things we have been talking about.

Maybe I missed it, but I do not think you had a chance to actually play out what you thought would happen if that scenario turned out to be.

Dr. WIRSING. Right. I think that the 11th general election, which is only months ahead, is going to be not only very interesting, but very important to South Asia and also to our relationship there.

The speculation generally, at least up until very recently, was that we would probably find ourselves with a hung Parliament. I think most people agree on that.

My view would be that even if the BJP, the Hindu nationalist party, turns out to be the single largest party in the Parliament, which I think is a real possibility, that the center and center-left

and left parties—Congress, Janata party, the Communist parties—will not want to permit the right wing party to come to power.

They likely would patch together some type of a coalition. My guess is that we will get a center or center-left coalition government, but possibly one in which the Congress party would play a much lesser role than it has in the past.

Anything is possible in India, and as I said before, the signs are mixed. But most of the signs in the past year have been negative for Congress.

Now only 2 months ago the BJP Government in the state of Gujarat, where it had enjoyed a 75-percent majority in the legislature, almost fell. Reliable reports indicate that the four top leaders of the BJP party, national leaders, openly wept at a public rally thereafter at this terrible sign of fracture within their party.

Now whether that is a sign that even the right wing has some problems of fractiousness and so forth, remains to be seen.

I would certainly weigh in on the side of very limited likelihood that the right wing party will capture power, but I am of the belief that the BJP will increase its seats in the Parliament.

It is already the No. 1 opposition party and will be a much more formidable force and have a base in the Parliament to advance its cause.

Now if it becomes a more formidable force in Parliament, and it might of course even have an opportunity to form the government, what would this mean in regard to Indo-Pakistan relations?

Well, the leadership of the BJP is itself ideologically divided. Its leaders have gone to some lengths to indicate in the last 2 months that if they win that they would nominate Atal Bihari Bajpai to be the Prime Minister.

Well, he is a man of rather moderate views. Indeed, he was Minister of Foreign Affairs during the brief period of Janata party rule back in the late 1970's, during which period India probably enjoyed better relations with Pakistan than either before or since. That could happen again.

What BJP leaders argue is that because their credibility with the Indian people, in regard to issues of Kashmir and Pakistan, is better than that of Congress, that, in fact, in spite of their reputation for being hardline Hindu nationalists, they might be able to cut a better deal with Pakistan than could the Congress.

I do not buy that thesis. It has some merit, but my personal belief is that there are a considerable number of people in that organization and in the sister organizations upon which it is dependent that are very hardline indeed and who would be extremely difficult to jettison, were the BJP to come to power.

I believe that the BJP is not likely to make the kinds of major accommodations in regard to Kashmir and other issues between India and Pakistan that would buy us an era of peace.

Mr. KREPON. Congressman Berman, the Hindu nationalist party, the BJP, recently held a party Congress and at that party Congress they adopted a platform that would reduce autonomy in Kashmir and they adopted a platform that calls for the over deployment of new nuclear-capable missiles. Indeed, I believe it also calls for the carrying out of nuclear testing.

Now whether or not this platform would actually be implemented faithfully, if the BJP did come to power as part of some kind of a coalition government is another question.

But based on those data points, I believe that Indo-Pak relations are likely to worsen in this event.

Mr. BEREUTER. Thank you very much, Mr. Berman, for carrying on. I will try to catch up with the responses. I heard a few of them as I was waiting by the door for my appointment to arrive.

If I ask a couple of questions that have been covered, please just tell me that and I will not keep you here any longer than I have to.

I hope, Mr. Krepon, that you do not think it was a mistake for us to hold the hearing, despite the fact that you think it is likely to be misinterpreted.

Mr. KREPON. I think this is an important hearing and I congratulate you for putting in the time on it. This is a region of the world that is heading in the wrong direction.

Mr. BEREUTER. Is there anything that we can do to try to limit the kind of misunderstanding of the actions of Congress or this committee?

I noted, for example, a recent article that said the Indians, and, to some extent the Pakistanis, exaggerated ideas about the power and influence and manipulative ability of the Central Intelligence Agency.

As a member of the Intelligence Oversight Committee here until January, I was amazed what they thought about our capacity. I wish it was a third as great as the Indians apparently think it is.

How do we reduce some misunderstandings about our interest in what is happening with respect to, if not our vital national interest, at least our national interest and commercial interest and interest in trying to protect our own security?

Mr. KREPON. We have no power whatsoever. The Congress has no power whatsoever and non-governmental organizations do not have the power to change the way the Indian press or the Pakistani press view this country.

All we can do is to convey very, very clear messages and a number of important messages were conveyed at this hearing.

No. 1, that the United States is not tilting toward Pakistan as a result of the Brown Amendment. No. 2, that we have no grand design on this region. We wish it well. We want this region to be at peace and a region that is capable of tapping the great reserves of entrepreneurship that exist there.

We are not seeking to put troops on the ground. We wish this region well. But the region cannot do well if it ignores the current trend lines. That is not to say that another war is coming. Nobody wants a war in this region.

But they do not have the capacity on the ground to deal with crisis. This is a region that is prone to crisis.

Mr. BEREUTER. I thank you for summarizing some of the message that you think this hearing conveyed. I believe those are accurate indications of this member's attitudes about those subjects and I think it is, in effect, accurate on a bipartisan basis. So I hope that people do draw those same messages from it.

Dr. Wirsing, in particular you I will address this to, but I welcome the comments of any of you. You also talked about the post-cold war absence of any outside role as a power balancer between India and Pakistan in your written statement.

Could you say a little bit more about this and its implications for U.S. policy?

Dr. WIRSING. Yes.

Mr. BEREUTER. Unless you have previously covered this. Have you?

Dr. WIRSING. No, I did not. In my written comments, I tried to explain that for most of South Asia's scarcely half century history, one or another great or super power has played the role of power balancer in the region, in part simply by lending diplomatic weight to one side or the other or through the provision of weapons, political support.

China has played that role to a certain extent, certainly regarding Pakistan. The United States, of course, with its close alliance with Pakistan, also played that role, as did the Soviet Union on the Indian side.

Ironically, with the end of the cold war and the exit from any major security preoccupation in South Asia by the Russians, by the Chinese and by the United States, the region has been left to a certain extent to fend for itself.

One sees that today in some of the comments that are being made by observers that perhaps it ought to be left to fend for itself.

Initially there was the hope that on its own, freed of the entanglements of cold war alliance, that peace would break out, that a peace dividend would be paid and South Asia could proceed in peace.

That was a theory that many, many scholars had advanced, particularly those with a leftist persuasion, that most of the conflict in South Asia, and the India-Pakistan conflict in particular, could be explained by the interference of the great powers.

So the post-cold war era should have brought an end to that and have enabled India and Pakistan to achieve a degree of reconciliation. In my judgment, precisely the reverse is true. The region is more insecure now than it was during the cold war. I think I disagree with George Tanham a bit in this regard.

In the absence of any external force, the asymmetry, the power imbalance between India and Pakistan, which Tanham argues and I agree is what is critically at stake in the South Asian region, is the real source of insecurity.

Kashmir is symptomatic of that power imbalance. If you resolved Kashmir, I fear something else would arise to take its place.

That power imbalance now is left to local forces to be adjusted. I just read in "India Today" that as many as 1,000 militants are infiltrating from Pakistan into Kashmir per month.

If that is true, that is a spectacular instance of interference by Pakistan in Indian affairs. But, of course, if Pakistan has no external security assurances, and to my knowledge it has none from any outside power in regard to weapons or political or diplomatic support, then it naturally has to see to its own security. It does so in those ways where it has some resources to apply. One of those resources, obviously, is a long border with India, a border that cannot

easily be fortified or fenced and that can tie down large numbers of Indian forces.

The chief of army staff of the Indian army announced last year that over 50 percent of the regular Indian army, forget the paramilitary forces, are engaged in internal security.

So it is a useful mechanism for Pakistan to stoke the fires of insurgency within India in order to address this power imbalance. This is why in my paper I argue for a greater security role in South Africa for the United States, certainly not of the magnitude that existed in the past, but certainly more than is implied in the passage of the Brown Amendment, a partial one-time lifting of the Pressler ban. In my judgment, the Brown Amendment hardly addresses the asymmetrical power relationship which lies at the root of subcontinental insecurity and of the India-Pakistan conflict.

Mr. BEREUTER. Thank you.

Dr. Tanham.

Dr. TANHAM. I do not think the situation has gotten better since the end of the cold war. I think it is bad and I agree that it has gotten worse.

I said to my wife in 1991, we will look back to the cold war, with some happy dreams because it was a simpler world.

I also think that South Asia was only marginally involved in the cold war. As just said, it is really an Indo-Pak problem, which was not all that much related to the civil war, except the super powers took sides.

Mr. BEREUTER. Well regrettably, but appropriately, I think I need to call this hearing to a close. Thank you three gentlemen for offering your time, your information and your recommendations to us.

I personally would welcome any kind of future contact that we might have personally and with the subcommittee. I believe that you are a source of expertise that we need to recognize to the extent that you are willing to use your capabilities.

Thank you very much for coming today.

Mr. KREPON. Thank you.

Dr. WIRSING. Thank you, Mr. Chairman.

Mr. TANHAM. Thank you very much.

Mr. BEREUTER. Without objection, Mr. Burton's written statement will be made a part of the hearing record.

[The prepared statement of Mr. Burton appears in the appendix.]

Mr. BEREUTER. The subcommittee hearing is adjourned.

[Whereupon, at 4:40 p.m., the subcommittee was adjourned to reconvene jointly with the Subcommittee on International Economic Policy and Trade at 1:30 p.m. on April 18, 1996.]



## PART 2—ECONOMIC OPPORTUNITIES AND PITFALLS IN SOUTH ASIA

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THURSDAY, APRIL 18, 1996

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON INTERNATIONAL RELATIONS,  
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY AND  
TRADE, AND  
SUBCOMMITTEE ON ASIA AND THE PACIFIC,  
*Washington, DC*

The subcommittees met, pursuant to notice, at 1:30 p.m., room 2200, Rayburn House Office Building, Washington, DC, Hon. Toby Roth, chairman of the Subcommittee on International Economic Policy and Trade, presiding.

Mr. ROTH. The hour of 1:30 p.m. having arrived, why don't we begin? Congressman Bereuter and other members are on their way here after that last vote. I know we have a very important panel and a very important hearing, so I think we will get started so we have enough time for not only the testimony, but also the Q&A, which is so necessary.

Today, our two subcommittees examine one of the world's most promising and often troubling regions, South Asia. U.S. exports to South Asia already exceed \$4 billion, and as the region continues to grow and develop, opportunities for American firms are expected to expand dramatically. Last year, developing countries and Asia grew 7.9 percent. Almost four times as fast as the world's developing economies. And although the countries in South Asia have not grown as rapidly as their East Asian counterparts, the growth in the region continues to be strong, actually bordering on phenomenal.

India and Pakistan are the region's two largest countries. Together, they represent an economic base of more than \$300 billion. But the region's economic prospects are tempered by a long history of political and military conflicts. Territorial disputes between India and Pakistan remain unsettled. The conflicts continue to fuel an arms race that has been racing and been troubling, especially as far as the nuclear proliferation concerns, and I know from talking to the other Congressmen, this is a big, big issue here in Congress.

India, already home for more than 900 million, is expected to pass the one billion mark in only 4 years, and by 2060 India will surpass China as the world's most populous nation. The development of India's infrastructure is crucial in the country's growth and strategy, but India lacks the domestic resources to undertake such massive projects as sometimes are anticipated. Foreign investors

will likely have to provide much of the funding needed to move India's infrastructure into the 21st century. U.S. foreign direct investment in India totaled some \$818 million, a 33 percent increase over the previous year. Despite the many opportunities, the U.S. trade deficit with India was \$2.4 billion last year. This came despite some 43 percent increase in U.S. merchandise exports to India. Much of this trade deficit results from high tariffs and other barriers to trade; and although India's government has taken important first steps to open its market, high tariff barriers, poor protection of intellectual property—let me repeat that: poor protection of intellectual property—and a whole host of trade and investment regulations all conspire to limit economic opportunities in the region.

Today, we have with us a group of experts from both the government and the private sector who will help us better understand the opportunities and the challenges that we face in South Asia. I look forward to their testimony this afternoon and thank them for joining us. And I thank Chairman Bereuter for joining us. I know he has a very busy schedule today. His staff and the other staffers here have done a good job of putting together this hearing. I thank Chairman Bereuter for sponsoring the hearing this afternoon.

Mr. BEREUTER. [presiding] Chairman Roth, thank you very much for your opening statement and for agreeing to this joint hearing, and it is my pleasure to agree with you that it is a high priority, and so we are pleased to have two excellent panels today.

A recent Foreign Affairs article called them "pivotal states" or "new dominoes." The late Secretary Brown, a staunch advocate of U.S. commercial interests, put one on America's top ten list of "Big Emerging Markets." And the Asian Development Bank says that largely because of the region's nations' prospects for economic growth, it seems, "unlikely that South Asia will now retreat from the path of pro-market reforms."

While South Asia includes the medium-sized economies of countries like Bangladesh, Sri Lanka, and some small economies of other countries like Bhutan and Nepal, it is clear that the region's two largest economies, that of India and Pakistan, present the most significant opportunities for U.S. investors and exporters. In the last year alone, U.S. exports to India and Pakistan increased by 44 and 30 percent, respectively.

The list of current U.S. investments and potential U.S. exports is long and impressive, from energy and telecommunications infrastructure projects to U.S. consumer good exports. India and Pakistan, with an estimated combined population of 1¾ billion people by the year 2025, cannot be ignored.

Since their independence, these two countries have posed difficult, complex, foreign policy decisions for the United States. Religious, ethnic, territorial, and security disputes between the two countries have presented us with formidable challenges for helping to maintain peace and prosperity in the region.

Nevertheless, the first half of the last decade of this century has shown a serious commitment by both countries to focus on sound economic solutions to many daunting challenges facing both countries. Perhaps because of stiff competition for foreign capital from their neighbor to the North, India and Pakistan have steadily pur-

sued macroeconomic and structural economic liberalization policies that have led to growth projections between 4 percent and 6 percent in the next 2 years.

Clearly, there have been some stumbling blocks in this path to economic liberalization. For example, U.S.-led power generation projects in both countries have been postponed, at least temporarily, by local politics and state politics and bureaucratic delay, and U.S. consumer exports have often met with stern resistance.

However, India and Pakistan both seem to have recognized that they cannot permit economic reform to stall. Especially for India, the competition from China for foreign investment is intense. For example, between 1990 and 1993, China led the developing world in foreign direct investment and absorbed \$27.9 billion, greatly surpassing India. Accordingly, China's gross domestic product is expected to double that of India's for the next 2 years, and that is even after taking into account that country's deliberate attempt to slow down their economy.

Nevertheless, foreign investment flows to India and China are not zero-sum games. And India's well-established legal system, something China lacks, has provided enough assurance to American investors to boost their commitment to more than \$800 million a year for the last several years. More importantly, the commitment by both India and Pakistan to pursue serious economic reform may prove to be the best opportunity for long-term cooperation and peace between the two countries.

Accordingly, while currently presented with difficult foreign policy questions on South Asian regional security issues, for example, the United States, conversely, faces a seemingly clear choice of encouraging broader and deeper economic reform within the region. This member, for his part, will support U.S. policies which reward those policies in India and Pakistan which favor economic trade and liberalization.

Mr. Chairman, may I introduce the two panels?

Mr. ROTH. Please—

Mr. BEREUTER. I will call on Ms. Meyers, if she has it.

Ms. MEYERS. I have no opening statement.

Mr. ROTH. Chairwoman Meyers—we are always delighted to have Chairwoman Meyers with us, too, because she has knowledge in all these areas.

Mr. BEREUTER. Our colleague from the International Relations Committee, Congresswoman Meyers, who chairs the Small Business Committee, which is of interest to us on every issue we take up, it seems.

Today, first of all, we are delighted to have the Honorable Raymond E. Vickery, Assistant Secretary of Commerce for Trade Development. Assistant Secretary Vickery, first let me say that we all sincerely regret the profound loss that you and the department have experienced recently in the death of Secretary Brown and the other top aides and assistants.

We held a special order 2 days ago on that and one today as well to express condolences of the House and to express our tribute to the magnificent leadership that Secretary Brown gave to the department in the area of expanding our trade and our commercial interests abroad. We sincerely appreciate your testifying before us

today, and we intend to honor the Secretary by attempting to do in our small way what we can to carry on his legacy of promoting U.S. commercial interests in South Asia and throughout the world.

Second, we are pleased to have a very distinguished panel of private sector representatives to explain exactly what are the opportunities and the pitfalls for U.S. companies in South Asia.

First, Mr. Jack Shaw is the chairman and chief executive officer of Hughes Network Systems, Inc. and senior vice president of Hughes Electronics Corporation, the chairman of the U.S.-India Commercial Alliance. As the leader of one of the world's fastest growing telecommunications companies, Mr. Shaw is well positioned to comment on India's lucrative telecom market.

Mr. Sreedhar Menon is managing director of emerging markets at Lehman Brothers, Inc., a New York-based financial services company. Mr. Menon is a board member of the U.S.-India Business Council and has extensive experience managing capital flows on the subcontinent.

Mr. Mike Gadbaw is vice president and senior counsel for General Electric's International Law and Policy Group. He is also the founding chairman of the India Interest Group and has a great deal of knowledge about power projects currently being built in both India and Pakistan.

Finally, we, and especially this member, are delighted to have Mr. Vinod Gupta, president of American Business Information, ABI, a highly successful company which catalogs information about U.S. and Canadian businesses. Mr. Gupta is a native of India and a citizen of the United States. He created ABI with a \$100 loan and a masters degree in engineering and business from the University of Nebraska at Lincoln, of which I am proud to say is my alma mater; that explains in part why he is so successful. And he has great India contacts that are very important to the United States. Thank you, Vin, for coming all the way from Omaha today for this opportunity to testify.

Gentlemen, all of your statements in their entirety will be made a part of the record, and we will ask you to summarize and perhaps limit your oral remarks, if possible, to about 10 minutes each, so that we can have a time for questions and other dialog.

So, first, we would like to proceed, if you have an opening statement, with Assistant Secretary Vickery. Welcome. Please proceed as you wish.

**STATEMENT OF HON. RAYMOND E. VICKERY, JR., ASSISTANT SECRETARY OF COMMERCE FOR TRADE DEVELOPMENT, U.S. DEPARTMENT OF COMMERCE**

Mr. VICKERY. Thank you very much, Chairman Bereuter. I want to thank you personally. I want to thank Chairman Roth and Chairman Meyers for the tribute done by the House, both today and previously, for Secretary Brown.

It has been a great tragedy. I think it ought to be apparent that just as trade is not a partisan matter, that we very much appreciate all that has been done in terms of providing support at this very crucial time, and all of us at the Department are certainly grateful for the condolences and respect which has been shown to our departed colleagues, and we are very appreciative.

I would like to take just a moment, if I might, to add my own tribute on this occasion to Secretary Brown and the others who died in the tragic accident in Croatia 2 weeks ago. As President Clinton has declared, they were all patriots, serving their country by helping to improve conditions in a war-torn part of the world. Secretary Brown knew that peace and prosperity go hand in hand, not just in the Balkans, but also in South Asia and around the world. He believed that expanded trade and investment are a sure path to increased international understanding, as well as greater economic opportunity for all.

Secretary Brown was a great friend of India, Pakistan, and the other countries of the South Asia region. In fact, as you know, he was prepared to go to India and Pakistan in January, but that mission was postponed at the last minute due to budget matters. We were planning for a rescheduled trip to India and Pakistan this June and had just spoken with representatives of Sri Lanka and Bangladesh when tragedy struck.

I and my colleagues at the Commerce Department look forward to continuing with Secretary Kantor to build upon Secretary Brown's legacy.

Turning to the subject at hand more closely, if I can make just one point today, it is that the United States is at an historic moment with regard to South Asia. All of the countries in this region of 1.3 billion people have embarked on an economic liberalization program and infrastructure development plans that are opening doors previously closed to U.S. trade and investment.

Whether or not we rise to this challenge has tremendous implications, not just for the region itself, but for U.S. exports and U.S. jobs. I will concentrate my remarks on India and Pakistan, which are the largest markets in the region, but I would add that the other countries—Sri Lanka, Bangladesh, Nepal, Bhutan—are all a part of the regional awakening which is taking place in terms of economic and commercial matters.

With regard to trade relations with India, Secretary Brown has left behind a rock-solid legacy. The watershed event in that respect may have been—and we believe it was—his January 1995 visit. During the mission, Secretary Brown witnessed the signing of contracts and memoranda of understanding and further deals worth some \$7 billion, a record for any Presidential business development mission. More importantly, the vast majority, I am happy to report, of these deals have either been completed or are on track for fulfillment.

The mission was part of a broader Administration effort to forge closer ties with India's leaders and government and business and to beginning a dialog that would provide new momentum to building commercial ties, addressing impediments to trade and investment, and paving the way for job-creating opportunities in the United States.

An important achievement during that mission and symbolic of the new commercial relationship we aim to build was the establishment of the U.S.-India Commercial Alliance. I will leave it to Jack Shaw, who is here today and has done a terrific job as U.S. chair of the Commercial Alliance, and to Mr. Mike Gadbow, who sits on

the board of that alliance, to describe its mission and activities more fully.

The India mission last year was an eye-opener for many in the United States and helped put India on the economic map of the world in many ways. The business dynamism being generated by India's new policies is impressive. The economic growth this is producing, along with the reduced tariffs and investment restrictions, is creating unprecedented opportunities for U.S. companies in virtually every sector, but especially in infrastructure, areas such as power generation, telecommunications, and transportation.

Barriers remain, and India remains a difficult market for U.S. companies. I can assure you that Secretary Brown, I, and other Commerce Department officials used last year's visit and subsequent meetings with Indian officials to urge them to continue economic liberalization, improve intellectual property protection, increase transparency in public tenders, and carry out other measures that would help India to achieve its development goals and to facilitate our companies' ability to work with India in this endeavor.

Last year, the India Government further reduced tariffs and took other steps that will foster economic growth and open new opportunities for U.S. commerce. We expect this process to continue. Although India will hold national elections this month and in May, observers are unanimous that economic reform is irreversible, regardless of who may be successful in that election.

As Indians and U.S. companies become more familiar and comfortable with each other, we expect that some of the startup problems, such as those encountered by Enron in its Dabhol power generation project and by Pepsico in opening Kentucky Fried Chicken Restaurants will fade.

As pioneering and high-profile ventures, it is not surprising that they encountered what some have termed as "bumps in the road." Certain sectors, such as power generation and telecommunications are just being opened to the private sector.

Mr. Chairman, I would direct the committee's attention to my written statement for an overview of the progress which we have been making in those sectors along with our Indian partners.

So far, we have found more interest in India among large U.S. companies, those that are the most active internationally. However—and this, of course, would be of particular interest to Chairman Meyers—we find that particularly now small business is becoming equally interested. And, in fact, if we had been able to take our trip as planned in January or even in June, Phil Lahter, the administrator of the Small Business Administration, was due to accompany Secretary Brown on that mission. We believe that the mission will take place. We will still emphasize small business as a way to expand the domestic residency, both in England and the United States, for the policies of liberalization and integration with the world economy.

When Secretary Brown and then-Indian Commerce Minister Chidambaram met last June at the first USICA board meeting in Santa Clara, they set a goal of increasing U.S.-India trade by 30 percent from 1994 through 1996. In fact, U.S.-India bilateral trade grew by 19 percent in 1995 alone, from \$7.6 billion in 1994 to \$9

billion in 1995; and as the chairman has noted, that includes a 44 percent increase in U.S. exports to India.

We are certain that our goal of a 30 percent increase is going to be surpassed, and it now looks like our goal, in terms of total trade with India, may have been too conservative. Jack Shaw will describe some of the ways in which the U.S.-India commercial alliance has contributed very markedly to that impressive growth.

The United States is the leading foreign direct investor in India. Total foreign investment approved by the Indian Government between August 1991 and December 1995, that is, since economic liberalization began, was valued at \$18.7 billion. Of the total, 26 percent, or four times the nearest competitor, is American.

Now, if I might, Mr. Chairman, I would like to turn attention to commercial engagement with Pakistan. I would emphasize that, in terms of the trip that Secretary Brown had planned in January and the one which we were intending to take in June, that it included trips to both countries, and I was in both countries preparing for that at the end of last year.

Like India, Pakistan has adopted more market-oriented economic policies and is turning to U.S. companies and technology for assistance in modernizing industry and expanding infrastructure. The Clinton administration is working to strengthen commercial ties with Pakistan, and Pakistan's economic liberalization has created new and significant opportunities for commercial cooperation.

In April 1995, Prime Minister Benazir Bhutto visited Washington and invited Secretary Brown to visit Pakistan to launch a new era in the commercial relationship which will increase U.S. exports and create U.S. jobs. That was the visit which was planned for last January, as I indicated, and it had to be postponed.

An important step in the process of building closer commercial ties would be to make it possible for the Overseas Private Investment Corporation and the Trade and Development Agency to operate in Pakistan. We believe that the presence of these agencies would give added confidence to companies in what can be a difficult business environment.

U.S. trade and commerce with Pakistan is modest, but the impact of Pakistan's economic liberalization is already beginning to be felt. Based on U.S. export performance in 1995, it appears we have broken the trend of declining trade which occurred as a result of the activation of Pressler Amendment sanctions and other factors. Total U.S. exports to Pakistan for 1995 measured 934 million, up some 30 percent from 718 million in 1994.

Again, we are Pakistan's largest trading partner and largest investor, both in direct and portfolio investment. U.S. direct investment in Pakistan is close to a billion dollars, more than 250 million of that in the last 2 years alone, with several times that amount under way in infrastructure projects.

We believe that we will have a continuing role for the U.S. Government in working with private business in promoting South Asia trade. The difficulties in doing business in South Asia and U.S. companies' lack of familiarity with the market mean that the Commerce Department needs to be particularly active in making business aware of the opportunities in assisting companies to explore and develop sales and projects.

Needless to say, we are not alone in having discovered the new opportunities in South Asia. Our competitors are increasingly active. The opportunities we miss often fall into the hands of a German, Italian, or Japanese firm. In that regard, I might note that when Secretary Brown's trip in January had to be postponed, in fact, the Canadian Prime Minister was there with two plane-loads of ministers and business people. They visited both India and Pakistan and announced the closing of billions of dollars in terms of deals.

I might say that when I was there in November 1994 preparing for Secretary Brown's trip, at the same time the United Kingdom Government had the Concorde with a plane-load of business people who were going from city to city in India and taking people up for rides on the Concorde and pressing very hard.

The point is that we have a role in a public/private partnership which is particularly strong and necessary in these economies which are in the process of converting from a command economy, a top-down operation, to one which is market driven.

What is going on in South Asia is going on all over the world. The United States cannot afford to slacken its export promotion efforts and our advocacy for U.S. companies. If we do, we are handing sales and jobs to our competitors. Opportunities often present themselves only once. Now is the time to take advantage of those commercial opportunities that South Asia now offers. I very much appreciate the support that these committees have shown for these activities. I can assure you that there is no higher matter on the agenda for Secretary Kantor or Under Secretary Stu Eisenstat, who are now both fully on board, than fulfilling the legacy that Ron Brown has left us in this very important area.

Thank you very much, Mr. Chairman. Members of the committee, I would be happy to answer any questions that you might have.

[The prepared statement of Mr. Vickery appears in the appendix.]

Mr. ROTH. Thank you very much for that excellent testimony. We have had a chance to go over it, and there are a lot of good facts and figures in here, and we appreciate the testimony. Why don't I ask Chairman Bereuter if he has any questions.

Mr. BEREUTER. Thank you, Chairman Roth. First of all, I might mention that I saw an Ottawa newspaper which trumpeted that the visit to India was the largest Canadian foreign trade mission ever in the history of the country, so they are not unaware of the opportunities there.

Mr. VICKERY. Exactly.

Mr. BEREUTER. I guess I would ask you a very simple, straightforward question which goes to the heart of why we are here in part, and that is, "What can the Congress do?" either in legislation or an oversight role, to maximize our business relationships with India and Pakistan and the South Asian Region, and what can we avoid doing that would be damaging?

Mr. VICKERY. I think, Mr. Chairman, you are already doing what needs to be done in the first instance, and that is to focus attention on this very important region and let it be known that the Congress stands with the Administration in having this as a priority.



We have called our relationship with India in the past "the era of missed opportunities". In fact, we have an opportunity to turn that around. I think in the area of what not to do, it is often the case in many areas of the world—and this is no exception—that what appears to be the trend of the day, something that may come up in the heat of a political campaign, that may be said for domestic purposes is not really truly reflective of underlying reality.

I would encourage this committee, as it always has, to be the leader in terms of discerning that which is the underlying reality and then having your colleagues made aware of that. I do think that what we need to do is to support advocacy for American business.

As you know, we have set up at the Department of Commerce an advocacy center. We have an advocacy network which includes the agencies of the Trade Promotion Coordinating Committee. I felt that the effort needs to be supported very strongly by the Congress, particularly for this area, because as I have said, it is not like doing business in an area which has well-developed market mechanisms to be able to take care of matters.

When you are in a transition period from what have been basically socialized economies, top-down-command economies, it is particularly necessary that government stand with business in order to be able to sort out matters which occur which are hindering. Those come in terms of licensing, those go in terms of the remnants of the licensed *rhaj* which was left over.

I believe that this committee and the Congress should support our effort in that regard. I do not believe that it is in violation of any overall economic principles that we have in terms of using market mechanisms, but rather, it can be used to promote it. But it is not something which is immediately obvious, it seems to me, to some who may not be as familiar as you are and the members of this panel are with the conditions which exist in that region.

Mr. BEREUTER. Secretary Vickery, we will certainly accept that challenge, as we have already, and emphasize it. I think that is the view of most members of the International Relations Committee. It seems to me—and I have said it on a number of occasions—that India has done more in the last year to open up their markets to change their laws to provide us a kind of positive climate than any country of which I am aware. Enron probably has their second largest employment base in my state, so I am very familiar with the project, which you referred to as "a bump in the road", which related to state decisions.

Do you believe now that that bump in the road, which caused some people to have some questions about India's investment and business climate generally, is going to be put behind us, regardless of the elections this spring?

Mr. VICKERY. First of all, Mr. Chairman, I do not mean to under-emphasize the importance of that Dabhol-Enron matter by referring to it as a bump in the road. I simply mean to indicate that there was a discontinuity which I believe has been overcome and will continue to be. You have with you later this afternoon Mr. Mike Gadbaw from General Electric, one of the partners, as you know, along with Enron, and I am sure that he will be able to address that from a business perspective.

Let me just say, from our perspective at the Department of Commerce, you may recall that Secretary Ron Brown, when this came up on the third of August of last year, was asked what he thought about it, and he was optimistic at the time. He said that, well, the parties have a mechanism in India which they do not have in other places, which is a rule of law, a way to inject due process and procedures into a matter, and these matters can be resolved.

Well, as in so many things, it turns out that Secretary Brown was right about that. When many people were throwing up their hands and saying, "Oh, it is going back to the days when everything was thought of in terms of the East India Company and how do we fight against colonialism?"

It has been a matter which I think has been handled very responsibly by the American companies, and in conjunction with those on the India side, and particularly at the Maharashtra state level, are still coming to grips with what the relationship should be between large multinational companies in areas such as this, and there has not been a map, really, to guide this by.

So I think that we do have that in the process of being put behind us. That is not to say there is not a lot to be done. The other fast-track projects, I am pleased to report, appear to be back on track. There are those who said nothing can happen because of elections coming up. It will be too politicized to make any progress. That was not our view, because the underlying realities of development in India are, for the average man and woman, if they cannot turn on the lights, if they cannot start the machine up, if you cannot make the computers run in the software houses in Bangalore, you cannot get things done.

And so I believe that what we are seeing is a shift away from some of the hyperbole about investment generally and cultural matters to a focus on the realities, and the realities there are that power generation is absolutely fundamental to development. It is not just for an economic elite, either in the United States or India, and we are very sanguine about those prospects.

Mr. BEREUTER. Thank you. Thank you very much.

Mr. ROTH. OK. I thank you, Chairman Bereuter. I think we will proceed in the order of arrival, and so we will have Manzullo, Rohrabacher, and Martinez in that order for questioning. Mr. Manzullo.

Mr. MANZULLO. Thank you, Mr. Chairman. Welcome. It is good to see you again. You mentioned power generation, and I was not going to ask this question, but I really have to in light of what I perceive as a dual policy that has been coming from the White House.

Mr. Secretary, we are going from South Asia to South Central China, which is not that far away. Several of us met last December as part of the Illinois delegation led by Senator Simon discussing the Three Gorges Dam issue in China. I bring this up because it goes to the overall policy of trade and investments.

You did not participate much in that discussion because I think we were running late and not on time. But did the Department of Commerce participate in the Interagency National Security Council Working Group on developing a recommendation to the Eximbank on U.S. participation in Three Gorges?

Mr. VICKERY. We did.

Mr. MANZULLO. Were you involved in that recommendation?

Mr. VICKERY. We were involved as a department, yes.

Mr. MANZULLO. OK. Were you involved personally in that?

Mr. VICKERY. Yes, I was.

Mr. MANZULLO. So you signed off on the recommendation.

Mr. VICKERY. I personally did not sign off; the department did sign off on that recommendation.

Mr. MANZULLO. OK. But do you agree with the recommendation to not finance American investments in the Three Gorges Project?

Mr. VICKERY. The department concurs in the recommendation that was made by the National Security Council in that regard.

Mr. MANZULLO. I guess what really bothers me is, as Senator Simon said, the Three Gorges Project will be built, with or without U.S. participation. And I am just very upset. I am very distressed over the fact that we are looking at losing a billion dollars' worth of investment. For Caterpillar alone, this project represents a \$200-to \$300-million export opportunity. The United States is telling the Chinese to go to Komatsu because the Chinese will go there and buy their Caterpillar equivalents.

Do you see any kind of a contradictory foreign policy with regard to what is going on in financing deals overseas by Eximbank?

Mr. VICKERY. Well, I do not see a contradictory policy. I would point out, Congressman, that there is no prohibition at all on American companies being involved in regard to that project, and it is not a case of there being—

Mr. MANZULLO. It is the points of financing that are critical. No Eximbank financing adds anywhere between three and four points to a loan, which could make the difference between a deal or not a deal.

Mr. VICKERY. It is the subsidized financing of the Export-Import Bank, and the belief was, for the reasons stated in Mr. Berger's letter, namely environment, human rights, and litigation—

Mr. MANZULLO. Right.

Mr. VICKERY [continuing]. that those funds—the advice was we do not know what Eximbank will do because Eximbank is not bound by that and has to make a determination that those funds could be spent elsewhere.

Mr. MANZULLO. Well, it is not a matter of elsewhere. I guess what bothers me is using the Eximbank as a tool of political policy. We are concerned about the Chinese alligator, we are concerned about the fact that a lot of people will have to be moved, but what has happened here is the United States is pulling the rug of U.S. participation in the world's largest project.

This bothers me. At the Illinois delegation meeting, the person who represented the Department of Justice is concerned about the extraterritorial application of the Endangered Species Act, and, therefore, the threat of a lawsuit over environmental concerns. Thus, the Department of Justice decided, as part of this working group, not to go along with the new recommendation for Eximbank financing.

I find that very poor policy. It simply does not make sense, because the Three Gorges Dam is going to be built anyway, and I would rather see American technology and ingenuity being used

with Eximbank financing to help Caterpillar and American producers of power generators. In fact, the gentleman who was on Secretary Brown's aircraft when it went down had testified before my subcommittee about the need to get those generators in and to bolster U.S. sales.

So I would lay it at the feet of the Administration the billions of dollars of lost sales as a result of a very poor policy on pulling the financing from the Eximbank. They are going to have to account to the American people for literally thousands and thousands of high-technology jobs because of somebody worried about the extraterritorial application of the Endangered Species Act. That is my statement, and I know you have to agree with Administration policy. I do not know, Ray, if you made the decision for the Commerce Department yourself. I do not think you did. You and I have talked, and I know that you are an avid free trader.

Mr. VICKERY. That is correct.

Mr. MANZULLO. But I would just convey that message, and I am not laying that blame on your shoulders.

Mr. VICKERY. Thank you very much, Congressman.

Mr. MANZULLO. Thank you.

Mr. ROTH. Mr. Rohrabacher.

Mr. ROHRABACHER. Well, earlier on, you stated that this was an area of missed opportunity, and let me just state, it is obvious that in the past the missed opportunity for economic interaction and commerce between our countries, that the fact that it was being missed was the fact that it was, as you mentioned in your prepared statement, that this was an area where socialism prevailed for such a long time. And so I would hope that the Indian people now realize—and it seems that they do because they seem to be now, as our chairman has indicated and as you have indicated, going through those reforms that will prevent socialism from being an impediment to the betterment of their people. And it is also preventing socialism from being a roadblock to people investing and creating new wealth in their society.

However, and the fact that the Enron project seems now to be coming to a positive conclusion—is that what we are hearing from you?

Mr. VICKERY. Yes, sir.

Mr. ROHRABACHER. OK. Because for a while there I know it has been back and forth and you have had different factors between different levels of government there.

Mr. VICKERY. Right.

Mr. ROHRABACHER. But you are right. That also is very symbolic, that the years of government interference and overregulation and socialism and high taxes in India have come to an end, and Enron is very symbolic of that, and a commitment to putting those days behind and moving forward to days where there can be better commerce.

Let me add that those, however, are not the only things. Socialism is not the only hurdle or the only roadblock that was preventing this economic interaction between our people. India was also—and people do not like to admit this, and I hope that India has a more open mind toward self-analysis now, because they are discarding socialism. But I hope they also realize that during the cold

war, many of us, by their actions, took them as an ally of the Soviet Union.

And the fact that every time we turned around, the Indian Government was kicking the United States in the teeth and basically siding with the Soviet Union's invasion of Afghanistan, etc., etc., now that seems to have been taken back also because the cold war is over and there is no more Soviet Union. But there are some other lingering issues that I believe will be impediments to the type of economic progress that can be experienced between both our countries. And as we sit here, basically, I think India is a much better market for the United States than China. I mean, I see the Indian middle class as being a tremendous market, and the fact that now they are leaving socialism behind, that incredible market now will become ever more lucrative.

But the market is not the only thing we have to look at; and while I agree with Mr. Manzullo wholeheartedly that we should not be concerned about the little birdies or the little snails or whatever else is being threatened on the endangered—alligators, Chinese alligators.

I may not be concerned about the alligators, but I am concerned about human beings, and human rights standards—and Mr. Manzullo and I may have a disagreement on this, but human rights standards do mean something to the people of the United States.

And if India is to enter into a new era of commerce and trade and prosperity in relationship with the United States, I think the message has to get through to the people of India that some of the human rights abuses that are being tolerated in their country have to come to an end.

Just a very short time ago, in the last few days, the entire leadership of the Kashmir Independence Movement was arrested. It might have happened just yesterday. We know that one of the leaders of the human rights movement was assassinated and before he could go to Geneva in order to testify about human rights abuses in the Kashmir.

We must put an end to this conflict in the Kashmir. That is a major impediment. And I am saying that not as someone who is pro or anti any group; we have got to put that issue behind us so that on the subcontinent the tensions between India and Pakistan can be left behind just like the cold war.

The people in Kashmir should be given basically a vote as to who they want to be associated with, as was mandated by the United Nations back in the 1940's, and then that vote should be recognized, and the Kashmir dispute should be put into history, and then India would not basically have to invest money, needless money in weapons systems. The same with Pakistan, which is also wasting enormous resources on weaponry.

And that is vital to this whole question, so I am sorry to sort of bring that up in a discussion of economics, but I honestly believe that there is a relationship here between the economic progress that India can have and these human rights and political issues. And feel free to shoot down that theory or whatever you would like to express.

Mr. VICKERY. Well, when we are talking about peace, I do not want to shoot down anything. But we are talking about peace and prosperity, I think, Congressman, going together; and that is that if we can turn attention to commercial matters, how to improve the lot of people, we think it will have an ameliorating effect on some of these age-old kinds of conflicts.

We believe very strongly in the rule of law and due process. In India, particularly, as I indicated earlier, the fact that there is a court system, that there is due process, is absolutely fundamental.

Mr. ROHRABACHER. That is what gives them the edge on China, for example. I think, Mr. Chairman, that that is something that none of us should forget, that in India they do have an infrastructure of a rule of law that has been established, they have election processes, and free newspapers, and such, and we should never forget that when we are trying to analyze which countries are going to be important to us in the future, because India has a much greater potential of entering immediately into the world economic era of prosperity in that regard.

Mr. VICKERY. Well, I think that is right, Congressman, in the sense that—and I am sure the business people here will back me up on it—the stability which is provided by having some recourse in terms of due process and rule of law is not just a matter of importance from a human rights perspective, but is of importance in terms of the basics of being able to do business. There is no question in my mind that being able to resolve something like the Dabhol-Enron, or let us just take the Kentucky Fried Chicken situation, being able to go to a court for redress when a mistake is made in terms of a handling or being able to go into a court system in regard to telecommunications—all of that adds to the ability over the long run to become prosperous.

And I think we in the United States, as you recognize, Congressman, have a great stake in helping that process, and we intend to do so at the Commerce Department.

Mr. ROHRABACHER. Thank you very much, Mr. Chairman. I yield back.

Mr. ROTH. OK. Thank you. Chairwoman Meyers has been called to a meeting of the committee chairmen, and she will be back shortly. Before she comes back, why don't we ask Mr. Martinez for his questions, and then we will go to Mr. Berman.

Mr. MARTINEZ. All right. Thank you, Mr. Chairman. Let me ask you a question, because it seems like there has been conflict between India and Pakistan and we have been drawn into it in some regard regarding the nuclear proliferation. And the Pressler Amendment, as we all know, created a lot of hard feelings on the part of Pakistan; and anything you do with one of the two countries is going to be looked at by the other country as favoritism toward that country.

Has there been difficulty in trying to arrange better trade with the United States on the basis of those differences?

Mr. VICKERY. Well, Congressman, I think that in both countries we found a receptivity and a willingness to work with the United States in regard to commercial and economic matters. And it has been our hope that that willingness by both parties to work with the United States in both commercial and economic matters would

have an ameliorating effect in terms of conflicts in the region, and we still believe that.

We think that in the long run there will be trade among all the nations of South Asia, and when nations are trading among themselves, it becomes very much more difficult simply to have simplistic views of the other side. And we keep that in mind. Our part of the portfolio is not the national security part; it is the commercial part. But as this Administration I think has recognized, perhaps more fully than some others, those go hand in hand. And we believe that the continued emphasis and continued engagement—I think it is very important that we view continuity as very much a value in terms of the commercial relationship.

It cannot be the sort of situation, “Yes, we are very interested today,” but something happens and it is no longer, and then we pick it up again in a year and it is back and forth. And as I was indicating in my remarks to the chairman about the contribution the Congress can make, it seems to me adding to that continuity in terms of treatment is a very significant factor.

Mr. MARTINEZ. The idea that we are probably the biggest trading partners for both countries and certainly the largest investors, what other countries come to mind, as Manzullo was speaking earlier, that we might, by our policies, divert the sale of Caterpillars from, let us say, our country and cause them to go to some other countries.

Are there other countries that are chomping at the bit to make investments in Pakistan or India or in a position to really provide—what they mostly need is the technology, the developing technologies. Do you see any other country really being able to provide any of it?

Mr. VICKERY. Yes. Well, there is a lot of competition out there. There is competition from not just the Canadians and the United Kingdom. Before you came in, Congressman, I referenced a trade mission, for example, that had taken place by the Canadian Prime Minister at the very time we were canceling ours. The United Kingdom, the French, the Germans—to a lesser extent but certainly the Japanese—are all very much interested in that area, and it is not the case that we are the only game in town.

And, in fact, I think that is one of the points that we have to recognize, that there are others who want to step in, and they may step in and use methods that are not those which we in the United States use. And by that I mean a competitive threat in terms of soft money, in terms of unfair business practices, incentives, and it is a very concrete reason that we have to have a strong public/private partnership in order to be able to meet that competition.

Mr. MARTINEZ. Speaking of the private/public partnerships, tragic as it was, the death of Secretary Ron Brown on his last trip, on this last trade mission he was on, I think those things are very important, and you indicate they are going to continue. How long have we been doing that? I cannot remember back in the, let us say, a few years back that there were really trade missions being conducted by the Department of Commerce. Have they always been going on?

Mr. VICKERY. Well, there have been. I think that there is no secret that under the express wishes of the President, Secretary

Brown had taken that to a new and different level. And I would point out in this area that it was not a part of just happenstance that we would go to one place or another. What we tried to is to have a strategy. We have a big emerging market strategy. What we are looking at are those 10 countries which are going to be more important to the United States in terms of trade by the year 2000 than both Germany and Western Europe put together. And that includes emerging markets like India.

When you look at the problems around the world in terms of the contributions that business development can make, whether it was Ron Brown going to Northern Ireland in order to try to help cement the peace process there, Haiti—we have done an awful lot in Haiti in trying to get business involved there; certainly in the Balkans, those kinds of things help, and it seems to me that it helps in South Asia as well.

Mr. MARTINEZ. The potential for an emerging market for us, right now I know that it is difficult for most consumer goods to be sold in those countries or imported into those countries, but as their economy grows, I imagine that some of the major undertakings like the power plants that they are building will all contribute to that. How long into the future do you see that it would be when, let us say, smaller companies might be able to start doing business with those countries?

Mr. VICKERY. Well, we think that smaller companies are already benefiting. And as I was indicating to Chairman Meyers before she left, it was an absolute, fundamental part of what we are doing in South Asia to involve small- and mid-sized business. Now, at first blush, that seems counter-intuitive: How does a small business take on the challenges where you do not have infrastructure, it is so far away, so different, and so forth?

But the fact is that many of our small businesses are involved as subcontractors, as suppliers at a second or even a third tier. This fall, we intend to sponsor, in conjunction with the World Bank meetings, a special session on infrastructure in big emerging markets and have particularly a focus on small- and mid-sized enterprises.

Under Secretary Eisenstat has told the Congress in his confirmation proceedings that he intends to hold a series of activities in conjunction with the Members of Congress, members of the Senate in districts pointing out how it is that small business can take advantage of these kinds of opportunities.

So if we can get people involved, first of all, in terms of subcontractors/suppliers, then it seems to me we are able to go forward from there.

Mr. MARTINEZ. Thank you, Mr. Chairman.

Mr. BEREUTER. Mr. Berman, the ranking Democrat on the——

Mr. BERMAN. Thank you, Mr. Chairman, and I apologize for being late, and in consideration of that, I think I will just put my statement into the record, if I might. And many of the points that I think need to be made sound like they have been made. I did not get to hear your initial testimony, and I apologize. I am tempted, having heard Mr. Rohrabacher's solution to the Kashmir crisis, to respond, but I will avoid that temptation, since that is not the sub-



ject of our hearing, and thank you for recognizing me. And I know we have another panel coming, so—

[The prepared statement of Mr. Berman appears in the appendix.]

Mr. BEREUTER. Mr. Berman, thank you for your forbearance. Secretary Vickery, we appreciate your representation of the Commerce Department, and I think the State Department owes you as well for some ground you had to cover today. We very much appreciate your testimony.

Mr. VICKERY. Thank you.

Mr. BEREUTER. We look forward to working with the Department of Commerce in expanding our export and our business opportunities generally.

Mr. VICKERY. Thank you very much, Mr. Chairman.

Mr. BEREUTER. I would like now to call the second panel to the table. Would those four gentlemen please come forward?

Mr. BEREUTER. The gentleman from California is recognized for unanimous consent request.

Mr. BERMAN. Thank you, Mr. Chairman. I would like unanimous consent to put into the record a written statement by Tarun Das, who is the director general of the Confederation of Indian Industry, and if that could appear in the record of this hearing, I would be very grateful.

Mr. BEREUTER. Without objection, that will be the order.

[The prepared statement of Mr. Das appears in the appendix.]

Mr. BEREUTER. Gentlemen, thank you very much for coming and agreeing to testify today. We very much appreciate that. As I mentioned earlier, your entire statements will be made a part of the record.

We would like to recognize you for 10 minutes or so each, less if you can do it, so that we will have a maximum amount of time for questions for you. So I think we will go in the order which you are listed. First, I call, then, Mr. Jack Shaw, chairman and chief executive officer of Hughes Network Systems. Mr. Shaw, you may proceed as you wish.

**STATEMENT OF MR. JACK SHAW, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, HUGHES NETWORK SYSTEMS; AND CO-CHAIRMAN, U.S.-INDIA COMMERCIAL ALLIANCE**

Mr. SHAW. Thank you. Thank you, Chairman Bereuter, members of the subcommittee. My name is Jack Shaw. I am a Hughes Electronics Corporation senior vice president, chairman and CEO of Hughes Network Systems, a subsidiary. "HNS," as we call ourselves, designs and manufactures telecommunications networks and systems and provides related services. H.N.S. is the leading provider of wireless systems, such as: satellite-based networks, with more than 60 percent of the global market; cellular-based, fixed wireless telephone systems; and mobile cellular digital packet data networks.

Thank you for this opportunity to testify before this subcommittee of the House Committee on International Relations to discuss commercial opportunities and challenges for U.S. companies in South Asia.

We currently conduct business all over this South Asian region, but for this afternoon we would like to concentrate on India. We are especially keen on the Indian market because one of our strategic goals is to expand sales of satellite-based and cellular-based equipment and services into high-potential emerging markets. And India is one of the fastest growing and most attractive emerging markets on earth. The world's tenth largest economy, seventh largest nation in land area, second largest in population, and, I believe, first in opportunity for trade.

India is becoming even more urbanized. Its two major port cities, Bombay and Calcutta, are among the world's dozen largest cities, and the populations of 17 of Indian cities now exceed one million people each. Its admirable education system is creating a skilled work force and the second largest pool of software engineers anywhere, along with experts in medicine, high technology, and the pure sciences. Technology parks are springing up and flourishing all over the country. And India is linking itself to the global information infrastructure via sophisticated satellite, terrestrial communications, and computer networks. India already is home to more than 55 registered software companies, for example, and software has become a billion-dollar business. The nation's current economic growth rate is 5½ percent or more, and the World Bank projects that India will be the world's fourth largest economy within just a few decades.

I have always been bullish on doing business with India. India is a world-class trading partner for the United States. Our country, in fact, is India's largest trading partner. We did a record \$9 billion worth of business together last year, up 20 percent from the year before. Today, I cannot even dream how close our two countries could become as trading partners if we keep working at it.

Our two nations enjoy the common bond of democracy: America's is the most lasting, and India's is the largest. To me, the single most striking advantage India has over some other emerging markets is an established legal framework. For business people, knowing that there is a legal framework surrounding what we do is very important.

In addition, I believe that the liberalization of the Indian economy begun 5 years ago has become part of the fabric of the Nation and is here to stay. India's companies are proving adept at shedding the old bureaucratic ways of doing business. They are adopting the very latest management techniques and adapting to a competitive business environment. And I do not expect the results of the parliamentary elections this month and next to deflect India from its settled course regarding economic reform.

Wonderful progress has been made there in opening capital markets, streamlining the investment approval process, cutting tariffs, rationalizing licensing requirements, reducing taxation, and protecting intellectual property. The pace has been faster than seemed possible. India must continue the reform process, and we stand ready to continue investing our capital in the country. The opportunities we see are excellent.

Here is one example I believe is really telling. While current telephone penetration in India is exceptionally low, demand is high and growing rapidly, 12 percent per year. There is an estimated

waiting list for nearly four million telephone lines. But the market is much larger than that. Perhaps as many as 360 million of India's citizens, 40 percent of the population, can afford phones. Close to a half a million remote villages await their own telephone services. India's Department of Telecommunications keeps extending service, but demand is growing faster than the availability of public funds to do the job.

So, a little over a year ago, the government liberalized the telecom sector. At that time, the estimated price tag for modernizing the country's phone system and providing universal service exceeded \$12 billion. The Prime Minister's sensible solution was privatization, encouraging India's telecom companies to team up with foreign partners and combine capital resources, operating experience, local knowledge, and technology.

In one initiative, the government is allowing Hughes and other companies to bid to invest private capital and bring basic telephone services into 20 different sectors, or "circles," covering the nation. The goal is to double available telephone lines to 14 million by next year. Two bid rounds already have been held, licenses are being granted, and a third round of bidding began this week. Up to 49 percent foreign equity is allowed, and the licenses are for 15 years. The response from Indian companies and multinationals has been positive, and over 40 proposals have been submitted so far. I am very pleased to add that we at HNS and our partners are among those winning a share of the business.

Overall, Hughes has done business in telecommunications with India since the early 1980's. We brought the country its first digital satellite network to help collect data from offshore oil-drilling platforms, and have since supplied networking services to various other organizations and government agencies. Presently, we have three successful ventures underway.

Hughes Software Systems Private, Ltd. specializes in the development of software for real-time embedded systems for communications and networking and other high-tech applications. Our partners are two Indian firms. With our investment of \$11 million in facilities just outside of Delhi, Hughes Software Systems has grown to employ 400 people and enjoys a worldwide customer base. This worldwide customer base also spells economic growth of our company here in Maryland.

Only 2 months ago, our second India venture, Hughes Escorts Communications, Ltd., marked its first anniversary of offering shared satellite communications services to businesses through very small-aperture terminals. Already this company of roughly 80 employees has signed up nearly 50 customers and installed more than 400 terminals all over India.

Our newest company, called Hughes Ispat, Ltd., a joint venture with Alltel, a telecommunications company here in the United States, and Nippon Denor Ispat, our India partner. It is bidding for basic telephony licenses under the country-wide deregulation that I mentioned earlier. Hughes Ispat has received a letter of intent from the Indian Department of Telecommunications allowing us to offer basic telephony services for the state of Maharashtra and is awaiting a second letter of intent to allow us to serve the state of Karnataka. We expect to invest substantial additional capital, be-

yond the license fees, to build local manufacturing plants that will provide telecom hardware to our operating companies.

As an engineer as well as a businessman, I am enormously excited about a challenge of helping India build and operate a 21st century telephone network, one that will leapfrog older technologies now in place in the United States and many other countries. Building our partnerships also is challenging. The key ingredients are mutual trust and respect, closely aligned objectives, a commitment to quality, value, and on-time delivery, and a good mix of capabilities, experience, and management.

That's why, in addition to my responsibilities at Hughes, I am pleased to serve as co-chairman of the U.S.-India Commercial Alliance, which is known by the acronym USICA. Although USICA is just 1 year old, it is already a flourishing success story because, in large part, it is both the co-creation and personification of Ron Brown, our late Secretary of Commerce. He worked tirelessly to promote bilateral business-to-business cooperation, but his notion of commercial diplomacy went well beyond winning contracts. It was part of a larger vision that many of us in this room share, namely, to improve the prospects for long-term economic and commercial ties with our trading partners.

USICA helps us realize this vision in a number of ways. It encourages businesses and trade associations in two countries to form alliances and promote joint conferences and training and work programs. USICA also is a powerful initiative to both deregulate and depoliticize trade between our countries. Companies such as mine enjoy immediate, top-level access to government policymakers whenever inhibiting rules and practices are uncovered during business-to-business negotiations or later on as our joint ventures are operating. We openly address major issues that impede free and open trade. And, of course, USICA, as an international business networking organization, is a direct doorway to new opportunities for trade and commerce.

Initially, we have targeted four business sectors for creating alliances. Each of these deals with infrastructure: transportation, power, agribusiness, and telecommunication.

How Congress can help us to continue to flourish in India is, of course, the question. India is a tremendous emerging market. Yet, for no good reason, it seems to us that it remains on the fringes of the U.S. Government's commercial agenda. It is essential that American business efforts to expand into India receive strong U.S. Government support. Our senior officials should be active on a broader spectrum of economic issues focused on building stronger commercial ties between our two nations.

One of the ways Congress can help us continue to succeed in India is by supporting the Department of Commerce in its export and trade promotion efforts. Often, when we compete abroad, we are competing against not just foreign companies, but also their governments. We need the advocacy of our own government, and the Department of Commerce is a strong voice speaking up on our behalf.

It is also important that U.S. firms operating in India gain access to financial aid packages to compete against Japanese and European firms, for example, that already have huge financial backing

from their governments. The role of the Eximbank in helping us match other nations' promises of low-cost financing can be crucial in winning contracts, as well as the roles of the Overseas Private Investment Corporation and the Trade and Development Agency, which have formed trade finance working groups that coordinate efforts to perform feasibility studies and initiate trade investment programs. All these benefit American firms as we compete abroad.

We also urge the U.S. Government to reinvigorate a mechanism to ensure periodic dialog between U.S. and India officials that is results-oriented, such as the Economic and Commercial Bilateral Subcommission. And, of course, please continue to support USICA.

Finally, let me end on a personal note. Like so many others, I was enthralled and inspired by the great energy that Ron Brown brought to his job and to realizing his vision of commercial diplomacy. I hope that spirit continues to pervade the Commerce Department and, indeed, our Nation's entire approach to doing business overseas, especially in India.

Only 2 months ago, Secretary Brown and I shared the dais for a video conference during USICA's board meeting in Delhi. Ron said he brought me along because government and industry need each other to achieve success. Ron told us, "I always say it's the private sector that fuels the engine pulling the train of economic growth. We in government are here to help you clear the tracks."

Members of the subcommittee, I think our track ahead in India is clear. The signal lights are green, and together our two great nations and all of our people will benefit as we keep the train of economic growth moving ahead. Thank you very much.

[The prepared statement of Mr. Shaw appears in the appendix.]

Mr. BEREUTER. Thank you very much, Mr. Shaw. We have a vote on the House floor. We are told it is the last vote of the day. I am going to, therefore, regrettably, but necessarily, call for a recess; and we will resume our hearing at 3 o'clock. We stand in recess.

[Recess.]

Mr. BEREUTER. The subcommittee will come to order on time—well, almost. Next, we would like to hear from Mr. R. Michael Gadbaw. He is a vice president for General Electric Company, the chairman of the India Interest Group. Mr. Gadbaw, thank you for coming. You may proceed as you wish with your summary or your direct comments.

#### **STATEMENT OF MR. R. MICHAEL GADBAW, VICE PRESIDENT AND SENIOR COUNCIL, GENERAL ELECTRIC COMPANY; AND CHAIRMAN, INDIA INTEREST GROUP**

Mr. GADBAW. Thank you, Mr. Chairman, for the opportunity to address this joint hearing. First of all, I would like to add my voice to the tribute to Secretary Brown and our colleagues from both government and business whose lives were so tragically cut short as they served American interests in pursuit of global markets. I hope their deaths serve as a permanent reminder of the fact that while our men and women in uniform can help stop fighting, only trade and investment and the jobs and prosperity they bring can build a lasting peace.

I am here today as the chairman of the India Interest Group. We applaud your initiative to hold hearings on a matter so important to U.S. export growth and U.S. jobs.

What has happened in India in the last 5 years has helped to make the world a much smaller and more prosperous place for both Indians and Americans. The story of how the Indian Government launched a program of structural reforms to open India to the global economy is a story well worth telling.

These economic reforms have helped to drive the growth of India's emerging consumer market and diversified industrial base, thereby presenting important new opportunities for a significantly increased U.S.-India commercial relationship.

Benefits of India's economic growth are improving the lives not only of Indians in Delhi and Bombay, but of Americans in Denver, Colorado or Schenectady, New York, in Milwaukee, Wisconsin, and many other places throughout our country. Telecommunications equipment produced in Colorado is revolutionizing the development of the entire Indian infrastructure. Gas turbines made in Greenville, South Carolina are powering industrial growth and rural development of India. Companies in Milwaukee are supplying components for medical equipment going to thousands of Indian hospitals.

In short, economic growth in India is directly tied to U.S. exports and jobs for working Americans. Already our exports to India have grown 20 percent in 1993-1994 and are expected to increase by another 15 percent this year, and direct investment last year surpassed our country's combined investment in India over the last 45 years.

Looking to build on this growth dynamic as India adapts still more market-opening measures, the Administration has identified India as one of the big emerging markets of this decade. This initiative has been especially helpful to medium- and small-sized U.S. companies which are looking for partnerships and alliances with India firms in many sectors of the Indian economy.

The India Interest Group is an informal group of 40 major U.S. companies representing some 3.6 billion in approved and pipeline direct investments in India. In December 1993, we launched the India Interest Group to highlight the positive impact on U.S. trade and investment of the economic changes taking place in India.

Our desire was to work with the U.S. Government and the government of India to improve the bilateral commercial environment through a two-way dialog aimed at raising the visibility of U.S.-India commercial relations with policy and decisionmakers in Washington and encouraging the process of liberalization of the India economy, especially trade and investment policies.

I am pleased to report that atmosphere in U.S.-India commercial relations has never been more positive. The rediscovery of India by the U.S. Government is evidenced by the launching of two complementary initiatives. The late Secretary Ron Brown and former Indian Commerce Secretary Pranab Mukharjee initiated the U.S.-India Commercial Alliance on January 16, 1995. Minister of Finance Monmohan Singh and Under Secretary of State Joan Spero formed the U.S.-India Economic Subcommittee.

These activities have brought together business and government in a partnership to work on furthering trade and investment liberalization.

I would also like to mention the transformation of the U.S. Department of Commerce and our embassies overseas into real advocates for U.S. business as another positive change. In particular, Ambassador Frank Wisner and his staff at the U.S. Embassy in New Delhi are a model of how business and government need to work together to pursue our commercial interests.

The India Interest Group has encouraged the government of India to maintain the momentum of its reforms to increase the flow of U.S. trade and investment. Moreover, we have recommended that the Indian central government reforms be supplemented by complementary measures at the state level to create a uniform pace of reform throughout the country. In this connection, we have been honored to host a number of Chief Ministers of important Indian states here in the United States, and their visits have helped to highlight opportunities at the state level and the commitment to reforms by these state governments.

Mr. Chairman, the Indian Interest Group has focused on a number of areas, and I would like to go through several of them and some of the key issues that we see.

In the area of trade and investment, we have seen significant reductions in Indian import tariffs and import licensing restrictions, a liberalization of the foreign exchange market, and the virtual elimination of quantitative import controls. We have encouraged the government of India to build into its current budget significant tariff cuts, especially on capital equipment, and to achieve greater transparency and predictability in India's import regime.

In investment, we have witnessed the elimination of government monopolies in the power, transportation, and telecommunications sectors, automatic approval for 51-percent foreign equity investments, and the opening of capital markets to foreign investors. We have encouraged the government of India to eliminate or reduce central and state agency clearances on new investments, and we believe the time has come for the United States and India to negotiate and sign a bilateral investment treaty.

In energy and power generation, the demand for power is increasing exponentially in India. The World Bank estimates that India will require 100 gigawatts of power capacity by the year 2000 to sustain its current growth rates. India's electric power load growth is forecast at 10 to 13 percent per year over the next few years. A significant portion of the capacity growth is expected to come from independent power production requiring billions of dollars in new capital investment.

The electricity rates in India differ dramatically from state to state, typically, with large subsidies for agrarian areas. Below-market rates in certain states are serious deterrents to foreign investment or other participation in the sector. The Indian Government is undertaking electricity rate reform by setting up national and regional boards to draft transparent rates for each state and by developing a two-part tariff system based upon private power project capital costs and operating expenses.

The India Interest Group has been discussing with our counterparts in India a six-step approach to reform of the power sector in India. Jointly, we made a series of recommendations, which include reform and restructure of the state electricity boards (SEBs), further streamlining the clearance process, promoting an effective competitive bidding process, development of a national fuel-management plan, and the promotion and renovation of existing power plants. I will not go into detail on pending power projects. Suffice it to say, there has been progress on the fast-tracks projects, most notably, the Dabhol Power Project; we are looking to see that be relaunched sometime in the next several months.

In the transportation sector, India is currently unable to keep up with its economic growth. India's growing population, coupled with increased urbanization, have contributed significantly to India's deteriorating transportation system. As investment drives growth in India, the need for improvements in roads, seaports, airports, and railways must be focused on preventing bottlenecks in the transportation of goods.

Unless corrective measures are initiated soon, economic growth will suffer. U.S. companies are ready and willing to assist with capital know-how in addressing this challenge, as evidenced most recently by a group of some 10 companies led by McDonell Douglas that visited a number of port and other infrastructure sites in an effort to assess what American companies can do.

As part of the overall liberalization process, India's Ministry of Surface Transportation has taken steps to liberalize rules and procedures relating to maritime transport. Seaport capacities, however, are being stretched beyond their limits. Most of India's ports are working well above capacity. These limitations are major sources of congestions and delays. Internationally, ports usually operate at 55 to 65 percent of capacity utilization. However, in India, most ports operate above the 100-percent mark.

There is tremendous opportunity for American companies to enter India and participate in developing needed infrastructure. India must import large road-building equipment if road construction is to take place in all parts of India. Tariffs should be waived or at least reduced on this equipment and spare parts and provision made to allow this equipment to be reexported or sold within India.

My colleague, Jack Shaw, has, I think, dealt very effectively with the telecommunications and information technology sector. Let me conclude by saying a word on consumer goods.

With the emerging middle class of 100 to 250 million people in India, coupled with the rising rate of personal consumption, the demand for consumer goods is quite high. The potential for American companies in this area is quite large. There are, however, a number of serious limitations on U.S. companies' abilities to participate in this market.

Most consumer product imports, including processed foods, continue to be restricted through a negative list or a restricted list. Many products on the restricted list have industrial and commercial applications, yet are designated as consumer products and thus restricted. Even if India's imports restrictions were removed, most consumer products would face prohibitively high tariffs. In the cur-



rent 1995–1996 fiscal year, India's unweighted average tariff rate of 42 percent is still among the world's highest. Additional import charges add significantly to import costs and often are applied to goods not produced domestically.

In the 1995–1996 India budget, continued liberalization that was begun in 1991, as the average import-weighted tariff was reduced from 33 percent to 27 percent, with some exceptions tariffs were reduced on capital goods, semi-manufactured imports, and imports for electronics required for local production rather than on finished consumer goods. The maximum peak tariff was reduced from 65 to 50 percent. Moreover, some consumer products were removed from the restricted list and added to the open general list.

Nevertheless, most finished consumer goods continued to be barred, and tariffs remain among the highest in the world. As stated by the World Bank in 1995, "Restrictions on imports of consumer goods and trade of agricultural commodities are still important obstacles to the full integration of India into the world economy."

We are discussing with Indian businesses and the Indian Government ways to reduce these barriers, sensitive to the inherently political and controversial nature of this sector, but mindful of the importance of progress in this area to two-way growth.

Mr. Chairman, thank you for inviting me to testify. We believe American business and American workers have an important stake in India's continued economic growth, with its positive impact on two-way trade and investment. The progress India has made to date has been impressive. The India Interest Group is pleased to be part of this effort to generate growth and jobs in India and in the United States, and we look forward to a positive exchange of ideas with you and the members of the subcommittee. Thank you.

[The prepared statement of Mr. Gadbow appears in the appendix.]

Mr. BEREUTER. Thank you very much, Mr. Gadbow, for your testimony. We really appreciate it.

Next, I would like to call Mr. Vinod Gupta, chief executive officer of the American Business Information, Inc. Vin, you know India well, and with your own dramatic business success in the United States, I think you are in a good position to give us your thoughts about the opportunities for American businesses, large and small, in India. I look forward to your testimony. You can proceed as you wish.

**STATEMENT OF MR. VINOD GUPTA, FOUNDER AND CHIEF EXECUTIVE OFFICER, AMERICAN BUSINESS INFORMATION, INC.—OMAHA, NEBRASKA**

Mr. GUPTA. Thank you, Mr. Chairman, for inviting me to the subcommittee. This is my first time at such a hearing, and I find this fascinating and also a learning experience for me and also my fiancée, Crystal Grow.

Mr. Chairman, my name is Vinod Gupta. I am the founder and chief executive officer of American Business Information, Inc. based in Omaha, Nebraska. I grew up in a little village in India called Rampur Manhgyaran. It is about 90 miles from New Delhi. This village had no roads, no electricity, no telephone, no cars, and vir-

tually no conveniences of any kind. But it did have a high school, which I attended. So I can say that I know India from its villages.

I then went on to receive my bachelor's of technology degree in engineering in 1967 from a college known as the Indian Institute of Technology, Kharagpur.

I left India that same year with \$58 in my pocket and came to the University of Nebraska at Lincoln to pursue my master's degree in engineering, which I received in 1969. I then went on to receive my M.B.A. in 1971 from the University of Nebraska. You might recall that Nebraska was No. 1 in football 2 years in a row at that time, just like 2 years now.

In February 1972, I founded American Business Information, Inc. with an initial investment of \$100, which I borrowed from the local bank. Today, it is a publicly held company with \$100 million in revenue and employing more than 800 people, mostly in Nebraska and Iowa.

When I was a young boy, I was told that America was the land of opportunity, and now I know firsthand that they were not kidding.

Mr. Chairman, today, I want to take this opportunity to thank the people of the United States and especially the people in Nebraska for allowing me to come to this country and giving me the opportunity for success. The happiness, the satisfaction, which I probably would not have been able to get anywhere else in the world. Furthermore, Mr. Chairman, I have three lovely boys—Jess, Benjamin, and Alex—who will grow up to enjoy the same benefits that I have had since I moved to the United States, and I am grateful for that.

It is also my pleasure to introduce to this committee, my fiance, Dr. Crystal Grow, right behind me here, who has been my partner, counselor, and my best friend for the last 2 years.

As you know, I am not the only immigrant who has found fortune in the United States. Over the years, millions of immigrants have come to this country seeking opportunity and a better life, and they, too, have found happiness. They have started families, and they have a similar story to share.

Mr. Chairman, today, the term "second-world" has pretty much disappeared from our vocabulary. And why? The need for bread, butter, housing, and clothing, which I call basic necessities, have won out over the idealism of communism when the threat of communism and socialism was finally exposed.

The collapse of communism in the Soviet Union and Eastern Europe in 1991 sent a message to the entire world that democracy and a free-market economy will prevail in the long run. One of the regions where this message was heard the loudest was South Asia. India, which is the largest country in the region, both in size and in population, had a long infatuation with state socialism. The former Soviet Union was India's largest trading partner and ally.

But by 1991, India was nearly bankrupt. Its foreign reserves had dwindled to less than \$1 billion. This forced India to make a major reassessment of its economic policies. In the new world order, Prime Minister P.V. Narashima Rao and Finance Minister Man Mohan Singh proposed a series of economic reforms which turned

India toward a market economy. And we all know the results of those reforms. I will not go into the details here.

Even though we have heard about internal problems in India, let's not forget that thousands of peaceful protesters were killed or wounded in Tiananmen Square in China and corporate executives were stunned when a McDonald's franchise in Beijing was suddenly revoked by the government.

And, of course, our government has been deeply disturbed by China's recent war games against Taiwan, as well as the illegal transfer of M-11 missiles, missile technology, and ring magnets to Pakistan and Iran.

Our business community is now waking up to the fact that India, which has more than 900 million people and a consumer class of almost 200 million people, offers an alternative to China as the most important emerging market for the next decade and beyond.

India also has the same qualities that were so attractive to corporate America in the past: a strong work ethic, competitive labor rates, and a strong commitment to education, particularly in the sciences. But India has attributes that China does not, which are vital to the United States and other countries in terms of long-term safe investments: a common-law legal system, property rights, freedom of press, freedom of religion, open elections, and English as a language used to conduct business.

And let me just kind of reiterate about freedom of press. Two years ago, I was in Kashmir, and I read the local paper, which was blasting India and the government and the people, and I thought I was reading a Pakistani paper. So I asked my uncle. I said, "Is this paper from Pakistan?" He said, "No, it's an Indian paper." So that is the kind of freedom the press has in India. And the same with the freedom of religion, where we have had or India has had a Moslem as a President and chief of army staff and senior executives and senior bureaucrats, that freedom is there in India.

Despite China's early lead in the search of U.S. corporate investment and trade, I am confident that India will prove to be a better choice in the long run.

Mr. Chairman, I would like to end on a personal note. There are numerous success stories in America businesses today that have started in India. For example, Mr. Rajat Gupta, the chairman of McKinsey & Co., was born in India. So was Mr. Rakesh Gangwal, the president of U.S. Air. And there are many other Indian entrepreneurs who have founded their companies in the United States, and they have provided millions of jobs for Americans. And I, too, have been blessed here in America.

All of us who have been successful in America have done so because the United States promotes individual entrepreneurship and freedom. I believe similar success stories are waiting to unfold in India, and I have personally seen some of them. The economic reforms being implemented in India today will most certainly produce a level of productivity and creativity that has never been experienced in South Asia.

In fact, my own family and college friends are negotiating with U.S. companies over large investments in India. It is vital that our government does not do anything that could endanger those reforms and the economic benefits they are producing.

We must recognize that India, the second most populous nation on earth and the world's largest democracy, deserves the strong and undivided attention of the American Government as well as our private sector. We must put the baggage of the cold war behind us. Unless we do, the United States will miss an important opportunity in South Asia.

Mr. Chairman, it is my dream that someday the words "third world" will also disappear from our vocabulary. Thank you very much.

[The prepared statement of Mr. Gupta appears in the appendix.]

Mr. BEREUTER. Thank you very much, Mr. Gupta. I appreciate your testimony very much. And, finally, we would like to hear from Mr. Sreedhar Menon, board member, U.S.-India Business Council.

Mr. Menon, welcome. Thank you for coming today. You may proceed as you wish.

#### **STATEMENT OF MR. SREEDHAR MENON, BOARD MEMBER, U.S.-INDIA BUSINESS COUNCIL**

Mr. MENON. Thank you, Mr. Chairman. I am speaking to you today in my capacity as a member of the board of the U.S.-India Business Council, as well as managing director in the Emerging Markets Group at Lehman Brothers, with whom I have been associated for the last 2 years.

I think that it is important for me to say that prior to being with Lehman Brothers, I spent 32 years with American Express Bank, the last position being deputy president and member of the board of American Express Bank. And in that capacity I had the opportunity of interfacing with India for the entirety of my 32 years when the country was a completely closed economy and it was looking at foreign investment, when she was encouraging bilateral trade to the extent possible, and the trade was defined as one-way trade as opposed to two-way trade.

Personally, being a native Indian, I am delighted to say that the reforms that have been issued in 1991 are a historic landmark, and despite the obstacles I have faced in operating in American Express Bank and Lehman Brothers, I must say that India was the largest profit-making country for American Express for a decade in the financial services sector.

Finally, India has eased opening up its markets. It has a lot of problems; there are issues. The nexus of the program of the systematic economic and industrial forms being now implemented are, I would say, intended to globalize India and open the market for foreign investment, not only from the United States, but from other countries, but the scope of maximum investment being from the United States because of the close affinity between India and the United States which has existed at least among the people and, more importantly, the educated people.

The 1991 reforms involved foreign exchange and trade liberalization, total abolishment of the industrial licensing system, encouragement for promotion of foreign investment, and reduction in tax reforms.

Of course, there were pockets of resistance. The pockets of resistance are because, I think, in my view, India is passing through an economic and political transition. In my view, it is a mistake to

look at India as one economic entity in today's environment. And if we look at India as one economic entity, for those who do not know India well, it will continue to be a puzzle.

I think, in my view, there are more than two economic entities in India, and in that extent it is probably comparable to European economic community, with the objective being promotion of the investment trade in each state, while at the same time encouraging intrastate rivalry for business, inflow of capital, and attraction of technology. In fact, the United States is already seeing this rivalry being healthy, being promoted by the visit of six Chief Ministers from Bengal and with the Chief Ministers from all the opposition states in India or most of the opposition states in India and Mahalestra.

Never before in the history of the relationship between the two countries have we witnessed the inflow of six Chief Ministers wanting to tout American companies to attract foreign investment and capital into their respective states.

Why is India going through a political and economic transition? I have heard comparisons with China and the opportunities in China, etc. But it is important to remember that unlike China, the reforms in India started at the center. As far as China was concerned, the reforms were initiated in the neighboring cities, with neighbors Indonesia, Taiwan, and Hong Kong, whereas the reforms in India started at the center.

Never before in the history of the Indian Constitution, the state Chief Ministers would want any kind of a part in framing the industrial policy. And, in fact, industrial policy never figured even in the agenda of the Council, which was attended by Prime Minister Rao as well as the Chief Ministers of the various states.

So the role of the states in those days was simply to provide land, electricity, and other infrastructure facilities to industries often at prices with the states incurring the losses.

I am delighted to see that this is changing. I am delighted that the industrial production in India has grown up at 11 percent consistently over the last two decades, slightly smaller than what we have witnessed in China and in Asia, but the highest in the past decade, with even exports increasing at about 20 percent.

Another thing which we are reminded of, irrespective of what is going to be the outcome of the forthcoming elections in India and who forms the Cabinet on May 10 when it happens, it is important to remember that each of the political parties, whether it is Congress or whether it is BJD, or whether it is National Front, Left Front, is firmly committed to the reform program, and they have made it very clear that they are committed to the reform program. There may be a certain lack of consensus in the process, in the speed, and the procedures for implementation, but they are committed to the reform process.

I personally feel, from interacting with India for a number of years and leading the Lehman Brothers initiative in India since 2 years, that despite its young age and pockets of resistance, India is committed to adopt a market-oriented economy. Does it offer challenges? There are huge challenges. There are huge challenges for American corporations to be patient, to be flexible, to be responsive, to be adaptive, and sometimes to be resilient, as we are seeing

in the case of whether it is KFC, whether it is Enron, and a few other companies.

But the most important thing to remember is that competing companies who are competing with U.S. businesses, such as Unilever, Siemens, and Nestle, the major companies of these countries are making it a substantial success of their operations in India understanding the country, understanding the system, and being able to work with the government and other interested parties.

I think the reform program, which will continue, in my mind, offers major opportunities for U.S. companies, and the maximum opportunities are likely to come in the hydrocarbon sector; the electric power, as explained by Mike; the telecommunication sector, as explained by Jack Shaw of Hughes; and infrastructure and financial sources.

If you take the hydrocarbon sector alone, in gas production today, it is only about 35 million tons of crude; it is expected to go up to about 45 million tons maybe in the next 10 years. But it would not be out of place to mention here the complete demand in the next 10 years for oil production will be 155 million tons, and this will involve a total investment of \$130 million over the next decade; and that is only one oil and gas sector. I will not touch upon the electric power, which has been outlined already.

How do you make these? We can talk about telecommunications, we can talk about the hydrocarbon sector, we can talk about electric power, and we can talk about the infrastructure, but unless the financial services and the financial sector responds to the initiatives in this sector by making the necessary changes needed to attract investment capital, that is going to be a hindrance; and I must say that the government is very alive to the issue of creating—I would not say “reforms”—innovations in the financial services sector, because that is considered as an engine of growth.

The country needs tremendous capital now and in the years to come. I think India will need a minimum of \$45 billion a year going forward over the next 10 years. The country has the capacity to generate about \$15 billion domestically times two. With a reasonably well-developed domestic capital market system, the country has been able to generate about \$10 billion equity, and the local system is about \$3 billion in debt.

Perhaps the development financing can support a decent debt of \$10 billion, but nevertheless it leaves a gap of approximately \$20 billion to be attracted. And for the purpose of tapping the foreign capital necessary, I think India will have to open up its financial markets.

Some of the issues which we have raised in the financial markets are they have the outdated and age-old, consortium lending regulations, which have been—I think—probably to protect the banks. There are liquidity constraints in the financial system, often created as opposed to happening on its own. There is no primary or secondary debt market as yet. Settlement procedures are cumbersome, which inhibits the attraction of foreign capital.

Most importantly, the insurance sector is the one sector which the government needs to open. The government has to also come

up with foreign exchange and interest rate—for the purpose of hedging the capital of foreign investment.

But what is very pleasing to note is that unlike in the past, everyone we talked to in India within the government, in the business is very responsive to make these changes happen under the auspices of USICA. And the consortium of India Interest Group, the U.S.-India Business Council, and the National Association of Manufacturers have formed several committees, and some of these are bilateral committees to make recommendations for innovations in these sectors.

And the government has responded by saying that they will definitely be willing to come to Washington or New Delhi for the purpose of listening and accepting these accommodations for implementation of some of the changes needed to protect the massive financial requirements of the country.

Finally, I am inclined to conclude that the country is now ready to leave industrial and commercial developments to market forces. They are also leaning toward making a market where there is a voice in the framing of regulations. The days of overregulation and microregulation with somewhat ineffective supervision are coming to an end.

I think the businesses in the United States and India, with the support of the government from both sides, can help the country in achieving the progress it is targeting for the purpose of alleviation of poverty and achieving the good needs, at least an average of 5 to 6 percent, to progress in the direction of some of her neighbors in Southeast Asia have progressed.

Finally, in conclusion, the U.S.-India Business Council, the India Interest Group, National Association of Manufacturers representing the private sector, along with our counterparts in India, with the Federation of India Chambers of Commerce, Associate Chambers of Commerce, and Conference of Indian Industries, have very strong recommendations in order to influence the government and the regulatory bodies to make the changes happen for the purpose of facilitating the flow of investment and trade. Thank you.

Mr. BEREUTER. Thank you very much, Mr. Menon. Thanks to all of you for your testimony. Mr. Menon, if I could just start and follow up directly with you, I particularly appreciated your comments about the financial sector service and the changes that have to be made, the need to open up the insurance sector for foreign participation.

You talked about the investment levels per capita that are needed in the next decade, and I think the gap, the \$20-billion gap. Did you say \$15 billion plus two is now the capacity that can be generated?

Mr. MENON. I said \$15 billion plus 10.

Mr. BEREUTER. Plus 10.

Mr. MENON. Yes.

Mr. BEREUTER. And that includes capital and—

Mr. MENON. That is the domestic savings being tapped through the domestic capital markets by raising—

Mr. BEREUTER. Plus loan capacity.

Mr. MENON. Plus loan capacity.

Mr. BEREUTER. I think you have anticipated my question about raising capital in India.

Mr. Gupta, you built a company from the ground up, which is based upon linking up businesses in the United States and Canada with other businesses here and abroad. What are the prospects, in your judgment, for better business-to-business cooperation between American firms and South Asian firms, particularly India, if you wish to restrict it to that, industry-to-industry cooperation for more joint ventures? What is the prospect and interest here, but more importantly, what do you think the interest is in India now, and what kind of support will the government give to joint ventures?

Mr. GUPTA. I think prospects are great. So far, most of the investment has been done by the larger companies, and most of the joint ventures have been with the larger companies in India, companies like ITC and Nippon—and some of the other companies. Maybe we have to go down to the second level, where the medium-sized companies here are having joint ventures with the medium-sized companies in India now and even the smaller businesses there.

And that would probably come about as we have more and more economic liberalization of India, you know, and you have more and more trade groups coming here, more trade groups going from the United States to India, and that will facilitate that. I think that will take time now, but the potential is tremendous there. I have no doubt.

Mr. BEREUTER. Do you think the Indian Government is doing what they can to encourage joint ventures, and what are the prospects for that to survive the next election, regardless of how the election turns out?

Mr. GUPTA. I think the Indian Government could do a lot more. Their biggest stumbling block is the bureaucracy because the bureaucrats, they are called the "princes of India" now, and they control the whole economy, and now they have to let this power go; so it is hard for them. So maybe we have to train those bureaucrats that, hey, it is good for the country and it is also good for you now.

So that has been a stumbling block, and as the time goes on, the stumbling block will go away. That is my opinion.

Mr. BEREUTER. Thank you. Chairman Roth, do you want to intervene with questions?

Mr. ROTH. Well, thank you, Chairman Bereuter. I want to apologize to this really good panel. We had a number of votes, and I had some people calling me off the floor, and unfortunately I did not have a chance to hear your testimony, but I had a chance to read your remarks here.

The question that I have, basically, is this: Our job this year is going to be to reauthorize OPIC and TDEA. I was wondering from the panel, how important is that, from your experience?

Mr. GADBAW. Well, I will certainly say on behalf of General Electric and I think many of the companies of the India Interest Group, both of those agencies play a very important role. OPIC was with us in the Dabhol Power Project. I think it was an important part of our ability to do that project initially and to weather the storm that we encountered there. TDEA, not only in India, but in many countries of the world, has played a key role in helping us really



bridge the gap between what we can do to make projects happen and what actually needs to be done.

We are very strong supporters of both those agencies and urge you to reauthorize them.

Mr. SHAW. I agree with Mike wholeheartedly. You know, companies like Hughes, General Electric, we obviously can finance, to a certain extent, and we all do. We provide equity money in some cases that helps get a project started, but we are not banks; and that is not what our shareholders expect from us. So we can go certainly a long way in getting things started, but these banking institutions are very, very important to us.

And something else that is important is that it does get the playing field a little bit leveled between a U.S. trading partner like ourselves and our competition. I am sure you folks have heard until you are tired of hearing that sometimes we have felt that we are competing against countries rather than companies, and these banking institutions are really a big part of us being equal to those kinds of efforts.

So I echo Mike's comments. We would really urge you to go forward with these areas.

Mr. ROTH. OK. Speaking of a level playing field, two points. One, when Secretary Brown was before this committee, I think last year at about this time he talked about incentive payments or bribery and we are losing a lot of contracts because of it. I see that OECD now in Europe has—in Paris has now said that these incentive payments should not be tax deductible, and there is a big brouhaha developing behind the scenes developing on it.

I was wondering, from your experience—as people right out there on the firing line—what do these incentive payments do? Do you lose a lot of contracts because of them, or what has been your experience?

Mr. SHAW. I have been in the international marketplace for some 30-plus years, so I would say in that 30-plus years I have never known for sure. It is always a worry that you have because you hear things. Procurement does not happen like you think it should happen. But I can tell you I have never once known for sure that something like that happened that caused me problems with the contract.

Mr. ROTH. Yes?

Mr. GADBAW. Mr. Chairman, I think I can speak to that issue because in my 5 years now at General Electric, that has been probably the issue that is raised most frequently by our executives when I go around the world and ask them what are the major issues that they confront. And I think we have been very supportive of the U.S. Government's efforts in the OECD. We commend them for the efforts to deny tax deductibility and urge them on toward criminalization.

It is our view that we ought to level up the playing field, not level down. It is our view that countries ought to stop subsidizing bribery by giving tax deductions, and we ought to start incentivizing ethical behavior by making sure that the benefits that governments give are conditioned on companies having policies on a global basis that ensure ethical behavior.

We are very strong supporters of public procurement reform, which goes directly to the issue of ensuring transparency, particularly in large infrastructure projects. The report that Secretary Brown sent to Congress this year, the \$45 billion that he referred to is primarily in the infrastructure sector, and I can tell you that our management definitely feels that we have lost business. It is in the billions of dollars. It is a very serious problem in large infrastructure projects in a number of countries throughout the world, and transparency and procurement reform are essential.

I would say, however, that what gives me hope—and I was at a conference yesterday that the Institute for International Economics had on anticorruption, and we had representatives from a number of disciplines, a number of countries. The Attorney General from Uganda was there speaking about a conference that they are holding next week of Transparency International.

I am encouraged that the world is changing, that this issue that 5 years ago people would have said this is the top issue for us, but there is nothing you can do about it, today, the prospects for change are much greater. The attention to it, the political attention it is getting and the ideas that are coming forward about ways to get at it, not just in this country, because there is very little that we alone can do. It is really getting other countries to step forward and to ensure that their companies are subject to the same kind of ethical practices.

So I am actually encouraged that something can be done, and it is really a very recent phenomenon that things have changed, and this initiative last week at the OECD is one example of that. The OAS Convention that just came out is another example, and I hope we, the United States, find our way to sign that. As I say, there are a whole series of other initiatives, so I encourage you to look into that issue and see what can be done.

Mr. ROTH. OK. Thank you very much. Thank you, Mr. Chairman, and I think it is important for the Congress to hear your message because we are going to be addressing those issues in the near future.

Mr. BEREUTER. Thank you very much for those questions. I am glad you asked the questions about TDE and OPIC. A number of our colleagues—I am sure Chairman Roth has heard it as well—on the Appropriations Committee, for example, and some of our newer members have raised questions about OPIC, and some suggest that this is simply a way of exporting American jobs. Of course, that is not the purpose, and I hope it is not the impact.

Would any of you like to make a comment about the best arguments to use to refute those comments from our colleagues, specifically on OPIC?

Mr. SHAW. I will take a crack at it. I know this is a difficult issue and a controversial issue. We have been trying to help to develop an understanding of this. I think the examples that I would show is that the trade follows investment as investment follows trade. The countries that are major investors are also the major exporters, that it is quite clear that where OPIC has helped U.S. companies make investments, our exports have been strengthened as a result.

OPIC has a very rigorous set of procedures to ensure that whenever it goes in and gives funding, that U.S. jobs are not adversely impacted, and it is certainly the case at General Electric that we have increased our net contribution to the U.S. balance of trade every year, and it is the result of being able to get into these emerging markets, not just with trade but also with investment.

Mr. BEREUTER. Mr. Gadbow, are you familiar with a project, an energy project in Pakistan? I do not know how to pronounce it—it is U-C-H—

Mr. GADBAW. I am somewhat familiar with that.

Mr. BEREUTER. GE is involved in it, I believe—

Mr. GADBAW. Yes.

Mr. BEREUTER [continuing]. as well as Tenaska, perhaps others.

Mr. GADBAW. That is right. That is correct.

Mr. BEREUTER. Has this project received any kind of U.S. Government assistance?

Mr. GADBAW. Yes, it has received U.S. Government assistance.

Mr. BEREUTER. What programs were utilized there and what stage?

Mr. GADBAW. On Uch, actually Uch has gone through several permutations. I am not sure I can give you off the top of my head all of the details. I would be happy to follow up. There was a time when it was to receive some AID money. Actually, then, that was replaced, and now I believe we may be getting money from Eximbank, but I would have to—I know we are getting money from—yes, we are getting money from Eximbank and from the World Bank. I am not sure what others, but I would be happy to give you some additional information on that.

Mr. BEREUTER. All right. Thank you. That would be helpful to us. I wonder if we could give our panel just an opportunity, if any of them have comments, to make one concluding bit of advice for us, a sentence or two, if you have it. Mr. Gupta.

Mr. GUPTA. Mr. Chairman. I might just make one comment as both India and Pakistan. They have spent so much money on defense, which, in my opinion, is money wasted now, and if America could take the leadership role in bringing peace between those two countries, it would free up so much defense money which can go into their economic uplift now, economic stimulus, that would pay a lot better dividend.

I think it is incredible, the amount of money that they are spending on defense, and if we can just take the leadership role and bring the peace and generate more trade between those two countries, that would be the best thing the subcommittee could do, in my opinion. I do not know if it is possible or not, but I think it could be.

Mr. ROTH. Well, yours is a wonderful success story. Mr. Bereuter was telling me about your success story when we were going over to vote. I was very impressed.

Mr. GUPTA. Thanks.

Mr. ROTH. The question I would have is, how long will it take for entrepreneurs like you to rise and develop in India and Pakistan? That is where the trade is going to come from, from people like you and not from governments, don't you think?

Mr. GUPTA. You are right. I think that the immigrants in this country are doing quite a bit of that, but, still, here, the Indians and the Pakistanis can be friends; but the minute we go to our countries and you will see this press and you will see the polarization, it is very hard to beat. And I think to do that, maybe a country like the United States has to take the leadership role and bring about the peace now. I think your committee and the Administration here can do a very effective job now and we will do our part on the other side, too.

Mr. BEREUTER. I agree with you, and I think, in fact, we made some comments about that in an earlier hearing, that if we can serve a mediator role or a convener role at the request of the parties, even if it is subtly requested, that is something the United States should proceed with because it is a very basic impediment to improving our relationships with both countries and, most importantly, between the two countries.

Mr. Menon, you wanted to make a comment, I think.

Mr. MENON. Yes. I was going to make a comment now. I will make this comment that I think they would definitely like to see the two countries live in absolute peace and harmony promoting investment and trade with India and Pakistan. But having said that, I think this, the territorial difference between India and Pakistan is such a highly charged issue, I think U.S. Government—and what comes to mind is—the Assistant Secretary of State has made some remarks about the Kashmir issue, etc.

The several times we attempted, it has backfired. I think it has to happen, but I do not know how it is going to happen because it is very difficult to go on a confrontational note in these countries. The best way for the U.S. Government and the U.S. Congressmen to help is encouraging the promotion of investment between the two countries within the confines of the Southern Regional Trade South Asia Council. They form what is called a "soc." And through the promotion of investment and trade between the two countries, then let the heat be cooled down a little bit and reach an eventual solution, as opposed to making that a precondition for making the settlement, but I think it will be counterproductive, in my view.

On OPIC, I would just like to add it is critical that OPIC continues its assistance, [inaudible] because what happened in the case of OPIC is OPIC provide the seed capital associated with the export of U.S. capital goods and services, which enables the rest of the financial sector to reach the subliminal capital needed, either in the form of syndicated loans or debt issues, etc., which—OPIC's involvement gives a kind of confidence to the financial system, which is critically important.

One of the recent examples of how OPIC is helping the small business of American joint ventures is very recently, just about a year ago, Oppenheimer and Chase Manhattan Bank joined together and put together a \$145-million venture capital fund with the caveat of 70 percent is in the form of notes to be guaranteed by OPIC to be invested solely in India where the investment criteria is that every penny of that note's guarantee must be invested where there is export of American goods and services, where there is American joint venture, and only in those companies. And that

is also a role that OPIC is playing, even in the joint ventures and medium-sized business and small sector, too.

Mr. BEREUTER. We are glad to have that example. That is important.

Mr. ROTH. Mr. Chairman, I was just going to mention. I think Mr. Gupta and Mr. Menon have somewhat of a solution to the problem. A number of years ago, I had to work very hard to get GE to be able to sell to a company in New Delhi because a French company was going to give a lot of aid and whatnot to get the contract, but we finally got GE, which was a better product, in my opinion. But if you could get the people in Pakistan and India to buy more from GE and Hughes, I think that would solve a lot of problems.

Mr. BEREUTER. Mr. Chairman, I have no more questions, but I would ask unanimous consent that Mr. Ackerman's written statement be made a part of the record.

[The prepared statement of Mr. Ackerman appears in the appendix.]

Mr. ROTH. Without objection. Thank you very much.

[Whereupon, at 4:02 p.m., the subcommittees were adjourned.]



# APPENDIX

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## OPENING STATEMENT

### *Overview of South Asia Security Issues*

*Rep. Howard L. Berman (D-CA)  
Ranking Member, Asia and Pacific Subcommittee  
December 6, 1995*

*o I commend Chairman Bereuter for holding once again an informative hearing on an important foreign policy topic -- security issues in South Asia.*

*o We have a clear national interest in the maintenance of peace and stability in South Asia. Although there maybe no immediate threat of a major confrontation between the countries of the region, the persistence of tension clearly increases the chance that a relatively minor dispute might escalate seriously.*

*o Nuclear nonproliferation, obviously, remains the chief U.S. goal in the region. I, for one, am particularly interested in hearing the administration's analysis of China's role in either furthering or hindering progress toward nonproliferation. What role do the Chinese play in the calculations of both the Pakistanis and the Indians? What actions have we urged upon the regional parties with regard to China and on China itself?*

*o Terrorism is another major American concern. It is not enough for any government to deplore and regret incidents like the recent attack on the Egyptian embassy in Pakistan. I hope you will be able to provide us with an update on where the investigation of this matter now stands and on what steps the Pakistani authorities are taking to curb the activities of extremist groups.*

*o As you know, I long have expressed concern about Iranian activities throughout the world. What is Iran's relationship with the countries of the region? To what extent do the states of the region view Iran as a threat? What is the relationship now between Iran and its near neighbors of Pakistan and Afghanistan?*

*o Narcotics are another issue about which I have major concerns. The continuing turmoil in Afghanistan and the weak governments in Central Asia creates a tremendous opportunity for drug trafficking. We will all be interested in hearing administration views on the extent of the problem, on regional efforts to deal with it, and on what the U.S. intends to do in this area.*

*o I hope you will comment on where we are headed with regard to security assistance and other forms of military-military cooperation. As I know you will discuss the implications of the Brown amendment, let me say that I hope you also will provide us with a clear sense what to expect with regard to*

*military cooperation on peacekeeping, counter-narcotics training, and intelligence sharing. Is India, for example, participating in the continuing U.S. effort to improve our peacekeeping capabilities? They have a lot of experience from which we might profit.*

*o Finally, let me commend the Administration for its efforts to improve our relations with the region. Although much attention has been directed towards Pakistan, efforts to improve our relationship with India deserve equal credit. Most noteworthy was the visit by the First Lady last winter. For too long, we have had too much friction in our relationship with India. We have permitted side issues to distract us from the many interests our two countries share. I am glad this era has come to an end.*



## Statement of

**The Honorable Edward R. Royce**  
**Vice-Chairman, Subcommittee on Asia and the Pacific**

*Hearing on "U.S. Security Interests in South Asia"*

*Wednesday, December 6, 1995*

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Thank you Mr. Chairman. I want to start by thanking you for holding these hearings at a critical time. It is a critical time because South Asia, like the rest of Asia, is vital to our national security and our economic future. Yet, as our trade increases, and as these countries become more prosperous, and in many cases more democratic, we see increasing signs of tension and unease.

The unease stems from one main issue in my view: What are the intentions of China, and what role will the United States be willing to play to guarantee stability and to maintain the status-quo?

I have been hearing these concerns from ambassadors, ranking officials and businessmen from the region for some time. But, increasingly, I see these concerns reflected in articles such as this week's feature story in Far Eastern Economic Review, "Patchwork Diplomacy," which questions the stability of the U.S.-Japan pillar of our Asian presence. This Sunday's New York Times carries a similar warning by Nick Kristoff, "Welcome Mat is Wearing Thin for G.I.'s in Asia." There are many major pieces reflecting these themes, especially after the Osaka meeting, such as the Washington Post feature story questioning U.S. relevance in Asia to Asians increasingly fixated on their regional balance of power and trade, and on China.

In regard to the Indian subcontinent, the strategic-delivery capability represented by the 30 or so Chinese M-11's that the Administration has been playing semantics with for some time now is a destabilizing factor. It aggravates an already spiraling arms build-up throughout Asia at a time when all the region's countries could be better served by economic and social development to undergird their liberalizations.

Worse yet, it encourages China to continue with its nuclear, chemical and biological programs and trade -- from Pakistan across to Iran. So we see a pattern emerging of weakened U.S. resolve, weakened U.S. will on curbing proliferation and dampening regional conflict, and an increasingly well-armed and adventurist China. This is a combination for disaster in the world's most populous and most nuclear-ringed region.

Having set this context, let me just make a comment about China to which I would like all of you

to respond, and respond particularly, if you would, with a mind toward India, our newest strategic ally in the region -- one whose stability and security is critical to the U.S. and to the prospects for the region.

Among the issues of concern are: the double digit increase in the PRC military budget for the past five years; aggressive acquisition of weapons systems and platforms such as the Su-27 fighter planes and Kilo class submarines from the former Soviet Union; increased signs of regional aggressiveness; and, continued development of its strategic nuclear and other weapons of mass destruction programs.

Last October 1994, a Chinese nuclear submarine trailed the Kitty Hawk in the international waters of the South China Sea which China regards as its domain. Beijing warned that the next time it would shoot-to-kill. This level of aggressiveness caught the world by surprise and served as a wake-up call. Chinese behavior in the year since has been troubling on a number of fronts:

- \* Illegal occupation and military construction on Philippines-claimed Mischief Reef in the contested Spratly Islands, within the territorial waters of a U.S. ally;
- \* Rapid growth of Chinese intelligence operations and capabilities, long ignored or down-played in the West in favor of concentration on the Soviet-era threat. China's successful test explosion of a neutron bomb resulted from plans stolen from California's Lawrence Livermore federal laboratory in the 1980s;
- \* Continued supply of nuclear missiles, material and technology to Pakistan and Iran; and lastly,
- \* The transit of nearly half of U.S.-bound heroin from Burma, et al. through southern China with official connivance.

These are just a few examples of concerns we have with China. If we have them, what do you think ought to be the level of concern in India? -- India, a democracy allied with the United States, sharing a long border over which it has fought twice with China; a country which, according to the State Department's Global Terrorism Review, for many years in a row, has been the target of terrorist attacks based in and sponsored by its neighbors who are armed by China; a country sharing a vital sea with China's nuclear submarines, increasingly quiet ones as I understand it, while India has none.

What is India to think, and what would you suggest we tell the Indians and others in the region, that we are willing to do to blunt any potential danger now before it becomes more costly to do so later, for them and for us?

*Statement of  
The Honorable Dan Burton*

*Subcommittee on Asia and the Pacific  
Hearing on "U.S. Security Interests in South Asia"*

*Wednesday, December 6, 1995  
2:00 p.m., 2172 Rayburn House Office Building*

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I would like to commend the Chairman for holding today's hearing on U.S. security interests in South Asia.

I also want to commend the Chairman for marking up House Resolution 274, which calls on these Burmese Government to release political prisoners, repeal laws which prohibit freedom of speech, and help control the massive flow of heroin from Burma. This resolution has my full support.

Mr. Chairman, while South Asia tends to receive little media focus when compared to other regions of the world, make no mistake about it, the United States has strong security interests in the region.

When the United States called on Pakistan to provide a sanctuary for Afghan rebels in their war to drive the Soviet Union out of Afghanistan, few people probably predicted the serious security problems both Pakistan and the United States would face once the war was over.

Guns leftover from the Afghan war are now used regularly in attacks against Pakistan's government by terrorist groups opposed to Prime Minister Bhutto.

Drugs, once produced to fund the war, now plague Pakistan which has witnessed a sharp rise in drug abuse among its people. It is important to point out that these drugs have not been used solely for Pakistani consumption. They find their way even to the United States.

Mujahideen who came to Pakistan to fight against the Soviets have remained in the country posing a serious threat to secularism and spreading their brand of religious extremism and terrorism to the rest of Asia and even the United States.

Pakistan is working hard to combat this terrorism. Prime Minister Bhutto should be commended for quickly arresting and extraditing Ramzi Yousef, the terrorist involved in the World Trade Center bombing, to the United States. Numerous other people have been extradited to the U.S. over the last two years.

It is also important to point out that Pakistan is still dealing with thousands of land mines left over from the Afghan war. These mines continue to kill and maim innocent Pakistanis.

Mr. Chairman, I think it is fair to say that the United States has a strong security interest in helping Pakistan combat these serious problems, not only because Pakistan was there for the U.S. when we were battling the Soviets, but because Pakistan's problems extend to our own borders.

Mr. Chairman, probably the greatest U.S. security interest in South Asia centers on Indian-occupied Kashmir and the military imbalance between India and Pakistan.

I want to commend the Administration for calling for a one-time waiver of the Pressler Amendment which froze \$368 million worth of military equipment that was paid for by Pakistan but has never been delivered. Under the waiver which was incorporated into the Foreign Aid Appropriations bill, this equipment can now be delivered to Pakistan and 28 F-16 fighters, which were also frozen by Pressler, can be sold to other countries and the proceeds can be given to Pakistan.

While commending the Administration on this point, I do want to express my belief that our policy in Kashmir, which says that "Kashmir is a disputed territory," but "the dispute should be handled bi-laterally between India and Pakistan" is wrong. The overwhelming number of people in Kashmir do not want to be part of India, and because the preference of most of these people is for independence, instead of union with Pakistan, neither country has an incentive to give the Kashmiris' self-determination. If the United States has an obligation to get involved in Bosnia, we certainly have one in Kashmir where just as many people have been killed and there is a possibility of nuclear weapons being used if war was to break out between India and Pakistan.



**STATEMENT BY ROBIN L. RAPHEL  
ASSISTANT SECRETARY OF STATE  
FOR SOUTH ASIAN AFFAIRS**

**HOUSE INTERNATIONAL RELATIONS COMMITTEE  
SUBCOMMITTEE  
ON ASIA AND THE PACIFIC**

**DECEMBER 6, 1995**

Thank you, Mr. Chairman, for this opportunity to testify on the security challenges facing the countries of South Asia and the U.S. approach to this important but sometimes difficult region. Your willingness to focus the subcommittee's time and attention on this matter is greatly appreciated.

Our greatest concern for stability in South Asia is the underlying tension between India and Pakistan, and therefore my testimony will focus primarily on these two countries. Although there is no immediate threat of war, relations between the two are bad and show no sign of improving. There has been no high level bilateral dialogue in almost two years. India and Pakistan still tend to view international affairs, including relations with the United States, as a zero sum game. In both India and Pakistan the governments are under strong domestic political pressure that makes them reluctant to take the "risk" of opening to the other. Current political forces combined with threat perceptions I will describe shortly drive both countries to continue to develop weapons of mass destruction and ballistic missiles. Our efforts to dissuade both countries from pursuing and escalating along this course are unremitting, but regrettably not as successful as we would like.

While outsiders may see South Asian countries' fears of their neighbors as overblown, both India and Pakistan see severe threats to their national security coming from across their borders. Many Pakistanis believe that India is intent on pursuing its own regional hegemony at the price of Pakistan's breakup. For Pakistan, nuclear weapons represent the ultimate deterrent to such a loss of national sovereignty. Indians see their most immediate threat coming from Pakistan, perceived to be an exporter of terrorism to India aimed at undermining India's territorial integrity. Indian policy makers also routinely cite a long-term threat from nuclear-armed China as a rationale for maintaining a nuclear option. Further, India's vision of itself as a global power underpins security arguments for its nuclear and missile programs.

More immediate to many South Asians are internal security problems which often spill over into inter-state tensions. Most South Asian states face domestic insurgencies or internal unrest which sap resources and heighten insecurities. Often the result of unresolved political differences, these conflicts can fuel escalating violence, human rights violations, and terrorism. This has been the case in Kashmir for some years. Pakistan also faces ongoing violence in Karachi, resulting from legitimate political grievances which have been enormously magnified by extremism and lawlessness.

Tensions in the region spill across borders and foster a growing acceptance of violence as a preferred means of settling disputes. Such an atmosphere can draw in militant groups operating outside the region. The recent bombing of the Egyptian embassy in Islamabad is a new and ominous development.

The growing menace of international crime, including narcotics trafficking, is a particular threat to South Asian states. Narcotics traffickers and other organized criminals prey on South Asian citizens, then use the money and power gained to corrupt and undermine state and political institutions. The United States is working closely with South Asian governments to combat this particular threat, as part of our international initiative against crime.

The continued conflict in Afghanistan is a major source of instability. Afghanistan has become a leading training ground for militants who carry strife to Pakistan, India, the Middle East, Bosnia, and beyond. President Rabbani and his troops control Kabul and 3-4 provinces in the northeast. The Taliban, a movement of religious students and ex-mujaheddin, have captured about half of the country's 32 provinces over the past year. For the last two months, the Taliban has maintained an offensive on the outskirts of Kabul. Both sides have engaged in air raids, which have resulted in civilian casualties. On November 29, we publicly deplored the violence that continues in Afghanistan and particularly, the toll of civilian casualties. We called on the warring parties to cooperate and work with the UN Special Mission headed by Ambassador Mestiri to agree to an immediate cease-fire and a transfer of power to an interim governing mechanism. Foreign involvement in Afghanistan has exacerbated the problem. Afghanistan regrettably also is becoming another theater for Indo-Pakistani competition. We have also asked all concerned countries and parties to desist from providing arms and assistance to the various factions. Such assistance only prolongs the conflict and contributes to instability in the region.

Several weeks ago Deputy Assistant Secretary Lanpher discussed our concerns about Sri Lanka in light of that country's continuing internal struggle. At this time, government forces are consolidating their control over the former separatist stronghold of Jaffna City. The Sri Lankan Government is also poised to present to Parliament its devolution package, which we believe could be an excellent starting point for consideration by all parties.

In Bangladesh, the past nineteen months have been a period of political deadlock marked by an Opposition boycott of Parliament, national strikes that have closed businesses and blockaded major transportation lines, and brought mass demonstrations and counter-demonstrations that have occasionally turned violent. The U.S. Government has consistently urged both sides to work together to find a settlement that would ensure peace and stability after national elections, now scheduled for January 18. The combined Opposition, however, has threatened to boycott general elections and announced plans for an intensified protest campaign to disrupt the polls, increasing the potential for violence and uncertainty. In Bangladesh, whose short history as a nation has too frequently been scarred by military interventions, the failure of democratically elected political leaders to ensure a peaceful, demonstrably fair election process may pose the additional danger of weakening popular confidence in civilian democracy and bringing further instability.

These threats to security and stability in South Asia are serious. While we recognize the United States has limited ability to influence the situation, regional stability must remain high on our agenda. To be effective, any U.S. approach has to take into account the legitimate security needs of regional states. Further, with no short-term fixes in sight, we must turn our attention to more measured steps that can enhance regional stability and reduce tensions while furthering our growing interests in the region.

India, with its large population, growing economy, and technological prowess, has the potential to be among the world powers of the twenty-first century. Achieving this status however, will require a responsible approach toward international affairs. India's support for multilateral peace and development efforts and its continuing role as a leader among developing countries demonstrate India's ability to engage globally. It is also important for India, as the most powerful country in its region, to pursue good relations with its neighbors.

Our relationship with India is evolving almost daily, and holds great promise for future cooperation. In the economic area in particular, both of our countries are benefiting from increased trade and investment. We have also initiated a regular dialogue with the Indian government on security issues. The U.S.-India Defense Policy Group held its first meetings in September. We have been cooperating with India in developing the Indian Light Combat Aircraft, the first prototype of which was recently produced in India, and have an increasing share of the Indian market for military technology.

There is, however, residual suspicion in India of U.S. geopolitical aims left over from the Cold War when India was generally aligned with the Soviet Union. We take these concerns seriously as they can undermine our efforts to develop the kind of bilateral relationship that both countries want and need. We have been working to allay this suspicion through robust dialogue with Indian decision makers and increasing cooperation in a broad spectrum of fields. I would note that we have in New Delhi one of our most respected diplomats, Frank Wisner. This is another sign of the importance we attach to these ties. We look forward to increasingly close and cooperative relations with this powerful nation.

Pakistan has been a valuable friend and ally of the United States for nearly five decades. Pakistan is a major contributor to peacekeeping operations around the world and has worked with us to combat terrorism and narcotics trafficking.



The pending revision of the Pressler Amendment should help the U.S. better respond to current regional and global realities and to better achieve our objectives, particularly in areas such as fighting international crime and furthering U.S. commercial interests in a lucrative market. The primary significance of the Pressler revision is in the political realm. Pressler sanctions changed Pakistani perceptions of their role in the world. For most of the past 40 years, Pakistan's strong Western orientation was continually reinforced by a broad range of contacts with the United States. Five years of sanctions cut off contacts, training, and cooperative projects, forcing Pakistan to look elsewhere for inspiration and friendship. The revisions embodied in the Foreign Operations Appropriations Bill will not reverse this trend overnight, but they do provide us with an opportunity to build a sounder, more mature relationship with Pakistan. We must be realistic, progress toward re-establishing a steady, predictable relationship will take time and continued attention.

Central to Indo-Pakistani tensions is Kashmir where insurgency and counter-insurgency flourish and innocent civilians pay the price for continuing strife. The situation cries out for dialogue - between India and Pakistan, between India and Kashmiri leaders, and among Kashmiris. We have repeatedly said we stand ready to help, but only if all parties agree that our assistance is welcome. Meanwhile, we have urged India to take the necessary steps to engage Kashmiris in a genuine dialogue on their future. We have repeatedly urged Pakistan to end material support for Kashmir militants as a step toward lowering tensions. We have also engaged Kashmiri leaders in an effort to get them to think creatively about political solutions.

I have spoken about the paramount importance of dialogue in reducing tensions between India and Pakistan. Unfortunately, as I mentioned earlier, no high level dialogue has taken place for almost two years. It is of great importance for India and Pakistan to resume talks. We urge the governments to exploit the opportunities for dialogue wherever they arise. Without a reopening of communications, there can be no growth of trust. Without a lowering of the excessive rhetoric on both sides, the opportunities to seek rational solutions will remain limited.

We are also concerned about the perfunctory use of existing confidence building measures between India and Pakistan. In 1990 tensions rapidly escalated following miscalculations over large military exercises. This led the two states to agree on, among other things, a hotline between Directors General of Military Operations that could be used to defuse crises and to provide prior notification for large military exercises. While both countries still use the hotline, we see little indication that they discuss substantive matters on it. Neither side routinely notifies each other in advance of military exercises as required in the 1991 agreement. At the same time incidents of small arms and mortar fire across the Line of Control in Kashmir continue regularly. Without functioning confidence building measures, there is greater danger that a future crisis between two nuclear capable states could flare out of control.

We also have urged India and Pakistan to tone down the rhetoric that they routinely employ against each other and to take simple steps to reduce tensions such as withdrawing troops from the Siachen Glacier, where hundreds have died over the years for the sake of positions of questionable strategic value on one of the world's most elevated ice cubes. India and Pakistan negotiated an agreement for such a withdrawal 1990, but it was never signed. It could now be easily dusted off and implemented.

I have already said there are no quick fixes to the security problems of South Asia. I would reiterate that both countries perceive grave threats to their vital interests that, they believe, require maintaining a nuclear option. Building a mature, thoughtful dialogue between India and Pakistan will take patience, increasingly confident democratic leaderships, and the political will and imagination to look ahead instead of backwards. Increasingly strong and friendly U.S. relations with each of the countries in the region can help this process, and we intend to continue to develop and nurture those relations as best we can in the months ahead.

Mr. Chairman, thank you again for your attention. I will be happy to take any questions.

**STATEMENT OF MR. BRUCE O. RIEDEL**  
**DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR NEAR EASTERN**  
**AND SOUTH ASIAN AFFAIRS**  
**BEFORE THE**  
**HOUSE COMMITTEE ON INTERNATIONAL RELATIONS,**  
**SUBCOMMITTEE ON ASIA AND THE PACIFIC**  
**DECEMBER 6, 1995**

Mr. Chairman and members of the Subcommittee, I am pleased to be here today with Assistant Secretary Raphel to testify on U.S. security interests in South Asia. In doing so, I would like to build on Secretary Raphel's overview of U.S. security interests and concerns in this increasingly important region by addressing DoD's efforts to support those larger interests through our engagement with the defense establishments of the various countries in South Asia. Given the very prominent role of Indo-Pakistani relations in our security concerns, the preponderance of my presentation will deal with those two countries. Obviously, a key factor as we look into the future of the Indo-Pakistani relationship will be the potential impact of the pending revision of the Pressler Amendment – an issue I hope to put into sharper focus.

**IMPORTANCE OF SOUTH ASIA**

To provide a context for my comments on DoD engagement in the region, I would like to start by discussing DoD's particular perspective as to the importance of South Asia. With the end of the Cold War, operational considerations have caused us to broaden our traditional focus on Europe and Northeast Asia to include concerns elsewhere. So far in this decade, U.S. forces have been committed to operations in the Persian Gulf area on four occasions: DESERT SHIELD/DESERT STORM in 1990-'91, PROVIDE COMFORT IN 1991,

VIGILANT WARRIOR in 1994, and the still-on-going SOUTHERN WATCH. In 1991, our forces were committed to Operation SEA ANGLE in which they rescued tens of thousands of cyclone victims in Bangladesh. In 1992, they were committed to UN peacekeeping operations in Somalia and two years later they were committed briefly to assist the UN in Rwanda. Common to all these operations was their proximity to the Indian Ocean – a body of water whose strategic significance has only increased as the world's dependence on oil from the Persian Gulf has grown.

A second factor affecting DoD's perception of the geographic significance of South Asia is the location of the second major military power in the region, Pakistan, at the intersection of three often unstable regions: South Asia, Southwest Asia and Central Asia. Pakistan has long been a friend in this area where we have sometimes not had an abundance of friends. Given the troubled condition of many of the states in these regions, we have valued Pakistan's efforts to develop democracy and a market economy.

In addition to the region's geographic significance, DoD must consider the military potential of the South Asia countries, particularly India and Pakistan -- which possess respectively the world's second and eighth largest armies based on the total number of men and women in their respective ground forces. To put that into perspective, the U.S. Army would rank number six by this criterion -- much smaller than the India's 1.2 million-man army but not that much larger than the 500,000-man Pakistan Army. While we would not consider either of these to be a likely opponent, the downsizing of U.S. forces requires us to think in terms of coalitions, especially for peacekeeping missions. Accordingly, the willingness of these two countries to commit their forces to causes we support makes them particularly significant in our strategic calculations.

In that regard, DoD has found itself interacting operationally and cooperatively with the armed forces of these two countries more in the last five

years than at any time in their 48-year histories. Pakistan contributed two brigades to the DESERT STORM Coalition. It was the first in and among the very last out of Somalia -- an operation, I might add, in which it participated at the express requests of Presidents Bush and Clinton, and in which its forces sustained more fatalities than the U.S. or any other contingent, and to which it ultimately committed over 7000 troops. Pakistan currently has an infantry battalion participating in the UN Mission in Haiti and has asked to have one of its two battalions assigned to UNPROFOR transferred to the IFOR in Bosnia. Earlier in the decade, Pakistan committed 1300 troops in Cambodia and an engineer battalion to help clear mines in Kuwait.

India, too, has a long and distinguished record supporting UN peacekeeping operations and considers its participation in such operations to be part of its responsibility as a member of the United Nations. Most recently, India has been a major contributor of forces to Somalia (over 5000 soldiers), Cambodia (1700), Mozambique (960), Rwanda (825), and Angola (900), and currently has 120 paramilitary personnel committed to the UN Mission in Haiti.

I should also note that two other South Asian countries, Bangladesh and Nepal, have been regular and generous contributors to UN peacekeeping operations. During this decade, Bangladesh has committed substantial contingents to operations in Cambodia (800), Somalia (1600), Mozambique (1650), Rwanda (990), Angola (1040), Haiti (1050), Kuwait (one battalion), and Bosnia (1320). Nepal has made major troop commitments in Lebanon (one battalion), Somalia (350), Bosnia (960), and Haiti (410).

Obviously, the willingness of the South Asia countries -- particularly India and Pakistan -- to commit their militaries in significant numbers to peacekeeping and other operational missions is an important factor in DoD's assessment of the importance of South Asia.

A final factor influencing the DoD perspective on South Asia is the potential for conflict between India and Pakistan and the consequences that such conflict could have for United States. There is no need to repeat the history of bitter animosity that has characterized Indo-Pakistani relations. Suffice it to say that these two states have fought three wars in less than 50 years, share a border along which both sides have deployed the majority of their ground forces, and must contend with the potential flashpoint of Kashmir.

Given this difficult environment, it is not surprising that we view the nuclear capabilities -- and the associated ballistic missile programs -- of India and Pakistan with considerable concern and as the regional issue of greatest importance. Accordingly, we do not and will not hesitate to caution Pakistan and India in regard to their nuclear and missile programs.

#### DOD ENGAGEMENT IN SOUTH ASIA

Some may see a contradiction in my analysis of South Asia's importance. While India and Pakistan's geographic and conventional military importance argue for closer defense ties, their nuclear and missile programs demand that we keep them at arm's length. I would answer that with a comment by Secretary Perry in his speech to the Foreign Policy Association earlier this year:

We believe that a strong defense relationship and increased cooperation [with India and Pakistan] will allow us to better pursue our common security interests, *but, at the same time, they will provide a better basis for working out the policy differences which we have with each of those countries.*

He went on:

... we find India and Pakistan's position on nuclear proliferation unpalatable. But to use this as a reason to disengage from the region, or to avoid deepening our security ties with these nations, could undermine

efforts to cap their destructive capability. It could even help push them into an unfettered arms race. That would be disastrous.

*I believe that we can best help to avoid the disastrous by building bridges of trust between the United States and India and between the United States and Pakistan.*

With that as our guidance, we in the Department of Defense have attempted to build bridges of trust through the strengthening our bilateral defense relationships and increasing our military-to-military cooperation within the established legal limitations. In that regard, let me now review our on-going activities in the various South Asia countries.

### India

Within the last year, DoD has worked with India to establish an expanded security dialogue and a more cooperative defense relationship. In January 1995 in New Delhi, Secretary Perry signed our first-ever security agreement with India which provides a framework for three levels of defense cooperation. A Defense Policy Group, chaired by the Assistant Secretary of Defense for International Security Affairs, first met in September to discuss security policy and other strategic issues of common interest. Subsequently, a Joint Technical Group, chaired by the Principal Deputy Assistant Secretary of Defense for Dual Use Technology and International Programs, met to discuss the potential for technology and production cooperation. At a third level, we seek to foster greater Service-to-Service Cooperation by having the Army, Navy and Air Force component commanders of Pacific Command meet with the vice chiefs of their respective Indian Services to promote exercises, training, and other areas of interests.

Our key security assistance programs with India are IMET and the provision of engineering support to the Light Combat Aircraft project. Given the importance we attach to IMET as a vehicle for building military ties on a personal as well as an

institutional level, we are seeking to increase the level of IMET funding for India from \$208K in 1995 to \$364K in 1996.

U.S. Pacific Command's Cooperative Engagement Strategy, which involves training and personnel exchanges, small-scale exercises, and professional conferences and symposia, is the cornerstone of our effort to increase service-to-service interaction. Under that strategy, U.S. Army Pacific, Pacific Air Forces and Pacific Fleet Command have established regular flag-level steering groups to coordinate these efforts. Several U.S. Navy ships call at Indian ports each year and senior U.S. and Indian military officers make increasingly frequent exchange visits. Agreement was also reached this year to establish an instructor pilot exchange under which one pilot from each country will perform instructor pilot duties in the other for a year.

The bottom line is that U.S.-Indian defense ties are better now than at any time in the past 30 years.

#### Pakistan

Despite the cut off foreign military sales under the Pressler Amendment in October 1990, U.S.-Pakistani military-to-military relations have remained surprisingly cordial. During Secretary Perry's visit to Pakistan last January, a decision was made to reestablish – after a five-year hiatus – the U.S.-Pakistan Consultative Group or CG as a forum for DoD/MOD-level discussions on security issues. The first meeting of the reestablished CG was held in Washington, in late May 1995, and was co-chaired by the Assistant Secretary of Defense for International Security Affairs and the Pakistani Defense Secretary. In addition to an exchange of threat perceptions and foreign policy perspectives, the CG agenda included discussions of military-to-military activities (e.g. exercises) and presentations on peacekeeping, counter-narcotics, and counter-terrorism. We expect the CG to meet again next fall in Islamabad.



U. S. Central Command's combined military exercise program with Pakistan involves approximately eight exercises each year and includes naval surface, naval air, ground force and special operations exercises. Each year, two U.S. officers attend the Pakistan Army Staff College and one the Pakistani National Defense College. Up to three Pakistani officers attend U.S. staff and war colleges each year under a reciprocal professional military education (PME) exchange. U.S. Navy ship visits occur periodically and exchange visits by senior U.S. and Pakistani military officers are frequent.

Enactment of the Brown Amendment will provide an opportunity to broaden certain aspects of the U.S.-Pakistani security relationship. Under this legislation, restrictions on assistance to Pakistan contained in the Pressler Amendment have been clarified to permit greater cooperation with Pakistani military forces in counter-narcotics, counter-terrorism, and peacekeeping activities. Additionally, the Brown Amendment permits assistance for purposes of facilitating military-to-military contact, training (including IMET) and humanitarian and civic assistance projects. I will have more to say on the impact of the Brown Amendment later.

### Bangladesh

While not as robust as U.S. relationships with the India and Pakistani militaries, U.S. and Bangladeshi forces have positively interacted for a number of years -- perhaps most visibly during Operation SEA ANGEL, the very successful disaster assistance operation following a highly destructive cyclone in 1991.

Our security assistance program for Bangladesh seeks to train about 15 students a year under IMET -- for which Bangladesh received approximately \$209K in IMET assistance in 1995 and \$258K has been requested for 1996. Military equipment provided through FMS is limited to materiel with direct application for civic action and disaster relief (construction equipment, communications,

vehicles, medical supplies, etc.). In that regard, some \$14 million of excess equipment was delivered by DoD in the wake of the 1991 cyclone.

U.S. Pacific Command and the Bangladesh military participate in several exercises each year and the Bangladesh Army is a regular participant the annual Pacific Armies Management Seminar (PAMS).

U.S. defense ties with Nepal, Sri Lanka and the Maldives are even more limited, primarily to small IMET programs. Due to the on-going civil war, DoD involvement in Afghanistan is limited to periodic aerial delivery of humanitarian assistance to Pakistan for onward shipment to Afghan refugees.

### Arms Sales

One traditional aspect of military cooperation which DoD is not pursuing in South Asia is arms sales. Arms sales to Pakistan, of course, continue to be prohibited under the Pressler Amendment. In the case of India, we have abstained from major arms sales that might alter the existing military balance of forces and have made clear, to quote Secretary Perry, that "this will not be an area for immediate, bold steps." Due to the economic difficulties of Bangladesh, we have, as a matter of policy, limited sales to engineer equipment and other items useful in disaster relief and infrastructure development. As for Sri Lanka, our policy remains the same: we do not sell lethal equipment due to human rights concerns stemming from that country's on-going civil war. This policy remains under review in light of the evolving situation in Sri Lanka.

### IMPACT OF THE REVISION OF THE PRESSLER AMENDMENT

In the balance of my presentation, I would like to offer my views on the impact on U.S. security interests in South Asia of the pending revision of the

Pressler Amendment under the Brown Amendment . From reading the Indian and Pakistani press, it appears that there is considerable misunderstanding of this legislation on both sides. In that regard, we realize that the Brown Amendment has been viewed with considerable concern and suspicion in India. I would hope that this hearing will serve to ease those concerns by clarifying a number of apparent misunderstandings.

Let me first of all emphasize that the Brown Amendment will not reestablish an arms supply relationship between the U.S. and Pakistan. Under Brown, a one-time exception to the Pressler Amendment will permit us to release about \$370 million worth of military equipment that has been embargoed under Pressler sanctions. All of this equipment has been placed on contract before the imposition of sanctions in October 1990. Pakistan has made all required payments on this equipment despite the fact that it was unable to take delivery on it. The President did not believe it fair to Pakistan to take what is not an insubstantial amount of money and to withhold the items for which it was spent. Moreover, he believed that this "unfairness" was undercutting our ability to engage the Government of Pakistan on issues of even greater importance to us such as nonproliferation. Accordingly, in an effort to create a climate that would enable us to more effectively deal with Pakistan on pressing bilateral issues, he sought to remove this irritant through a Congressional authorization for a one-time exception to Pressler to permit the release of the embargoed equipment. I want to assure all concerned that there will be no arms supply relationship with Pakistan until such time as the requirements of the Pressler Amendment are met in full -- that is, until the President can certify that Pakistan does not possess a nuclear weapon.

A second Brown-related concern is that the military equipment that we would release to Pakistan might upset the regional balance. A list of the equipment to be released is attached to this statement. We have carefully

reviewed the items on this list and have concluded that releasing it to Pakistan will not upset the Indo-Pakistani conventional arms balance. While I would be happy to respond to your questions regarding the impact of the specific items to be released, I would like to limit my formal remarks to several observations that may put the package into perspective.

First, although \$370 million worth of equipment is not insignificant, it must be considered in the context of the totality of Indian and Pakistani forces. Given the size of these two armed forces, and the fact that none of the items on the list provide Pakistan with an advantage that in any way offsets India's roughly two to one advantage in almost all areas of conventional arms strength, we are quite confident that this package does not pose a threat to Indian security nor does it in any way serve to destabilize the region.

Much has been made of the three P-3 aircraft that are part of the package. Armed with Harpoon anti-ship missiles, of which there are 28 in the package, some have argued that this system could threaten shipping along the entire west coast of India. While this is theoretically possible, it ignores the fact that India is not without considerable means to defend itself against what is a slow-flying, propeller-drive aircraft. Moreover, it ignores the fact that India has superior capabilities to threaten Pakistani shipping. Again, we have examined this issue very closely and have concluded that release of these aircraft and the Harpoon missiles will not upset the existing regional balance.

I would emphasize that in regard to the Pakistani F-16s, we have no plans or intention to deliver them to Pakistan unless it complies with the Pressler Amendment. Instead, we are seeking to resolve the F-16 issue by selling the aircraft to a third country and returning the proceeds to Pakistan.

While Brown does not permit a re-establishment of an arms supply relationship, it does permit us to provide limited military assistance to Pakistan in areas of importance to us. As I indicated earlier, Brown will enable DoD to

work more effectively with the Pakistani Armed Forces in peacekeeping, anti-terrorism, and counter-narcotics. We believe such cooperation will serve U.S. as well as Pakistani interests. Authority to facilitate military-to-military contacts (e.g., exchanges, seminars, exercise observes, etc.) and training to include reestablishing the IMET program will enable us to engage the Pakistani military more effectively.

## CONCLUSION

In closing I would like to emphasize that DoD views South Asia as an important region for a number of reasons -- most importantly because of the potential for nuclear conflict. We believe that we can best pursue our interests in the region -- to include nuclear and missile nonproliferation -- by engaging the militaries of the various countries of the region, particularly those of India and Pakistan. To that end, we have made important progress in our military relationships with the countries of South Asia.

In regard to the Brown Amendment, I want to reiterate that there are no plans to reestablish a military supply relationship with Pakistan and that the equipment that will be released as a one-time exception to Pressler does not pose a threat to regional stability.

I would be happy to respond to your questions.

U.S. SECURITY INTERESTS IN SOUTH ASIA

Testimony before the Subcommittee on Asia and the Pacific,  
Committee on International Relations, U.S. House of  
Representatives, December 6, 1995

Robert G. Wirsing

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Mr. Chairman, I want to thank you very much for the invitation to appear here today. My observations are based on a professional engagement with the South Asian region that began in 1965 and that includes over 25 years of scholarly specialization in South Asian politics and international relations as a member of the faculty at the University of South Carolina. I have made nearly a score of research trips to the region, including over four years of residence there split about equally between India and Pakistan, and have focused on topics ranging all the way from city politics to the Kashmir dispute. In the course of research I have met with a great number of the subcontinent's government officials, military and political leaders, diplomats, academics, journalists, and professional analysts.

Whereas the South Asian region has obviously lost a significant part of the strategic importance that it had for the United States during the Cold War period, I believe that the United States continues to have compelling reasons to remain engaged in a serious, substantive, and carefully meditated way with the countries in this region; and, furthermore, that the United States needs to give at least as much attention to the political circumstances of this region in the years ahead as was given to its military and strategic circumstances in the past.

My comments today focus on the region's security environment and its implications for U.S. interests, more particularly on the political dynamics of South Asian security issues, especially the long-standing India-Pakistan rivalry. In what follows I maintain that the South Asian region's potential for conflict, notwithstanding the hoped-for pacifying effects of the Cold War's ending, is at least as threatening as at any time in the past; that the reasons for this are largely to be found in the internal and intraregional political circumstances of the countries of this region; that these circumstances are likely to endure and to dominate the security environment of the region for the foreseeable future to at least as great an extent as the military-strategic circumstances of the Cold War are said to have done; and that remedial efforts of the international community, especially of the United States, will prove more successful in addressing the region's security issues if they are as mindful of these political circumstances as they have tended to be of the size, budgets, weapons and deployments of the region's defense forces. Timely international interventions to foster greater political stability, both within and among these countries, in other words, will pay just as great dividends to the region's security over the long term as will efforts to curb its burgeoning (especially nuclear) arms inventories.

My comments fall under two headings. First, I review the domestic political circumstances that most affect the present security environment of the South Asian region, suggesting as I proceed some of the implications of each of them for India-

Pakistan relations. Second, I examine the recent evolution of India-Pakistan relations, noting, in particular, the impact of their relationship on U.S. foreign policy interests in the region. I include here a number of suggestions pertaining to U.S. policy concerns, priorities, and objectives in the region.

# I. DOMESTIC POLITICAL CIRCUMSTANCES

## Political Instability.

Professional observers are almost uniform in their belief that virtually the entire South Asian region, including its three principal members (India, Pakistan, Bangladesh), is solidly embarked on an era of widespread political instability--meaning increasingly frequent turnover of governments, mounting civil violence and disorder, and the decline of popular confidence in the country's political institutions--that may leave the governments basically intact but heavily battered.

Specialists call this development the "crisis of governability" and speak in despairing terms of political "de-institutionalization" and democratic decline. Evidence for their sombre commentaries is not hard to find. As we meet, Sri Lanka is engulfed in a major military engagement that pits government forces against the forces of the Liberation Tigers of Tamil Eelam (LTTE) in a bloody battle for control of the Jaffna peninsula in the country's northeast. The territorial integrity of Sri Lanka is clearly at stake in this now twelve-year-long struggle, as is, obviously, the stability and workability of its parliamentary political institutions. In Bangladesh, the national parliament, elected in 1991 in what have been called the first free polls in the country's history, has just been dissolved in the midst of a bitter feud between Prime Minister Begum Khaleda Zia and her political rivals over the alleged rigging of a by-election in 1994. Ruled by authoritarian military regimes for most of the period since its birth in 1971, Bangladesh is threatened not only with the toppling of its fledgling democratic process and a return to military rule, but with the undermining of its already precarious economy.

In Pakistan, something close to political anarchy already prevails in Karachi, a sprawling city of nearly 12 million and the country's major port and industrial hub. Inter-ethnic conflict (primarily Mohajir versus Sindhi) has been joined in Karachi with sectarian and political animosities of the most lethal sort to produce an alarming species of urban terrorist warfare that has left so far this year an estimated 1,650 dead (10% of them police)--a figure roughly double last year's tally. As for neighboring Afghanistan, where a major battle for control of Kabul is now underway, and where an estimated 20,000 have perished since the withdrawal of Soviet forces in February 1989,



a just-released report of Amnesty International speaks of a situation horrendously abusive of human rights. There the very survival of the government, not to mention the territorial integrity of the country itself, is clearly at stake.

Even India, held up for decades by many as a model of parliamentary democracy's potential in non-Western societies, and unavoidably democracy's political anchorweight in the region, has not escaped the ravages of political turbulence and violence. News reports speak of over 20,000 dead so far in the nearly six years since the uprising of Kashmiri Muslims began in India's northern state of Jammu and Kashmir. It is only a few years since the Indian government managed to suppress the extremely bloody Sikh insurrection in Punjab; and the government's security forces are heavily engaged at present in putting down an array of violent ethnic upheavals in the country's remote northeastern area.

India's political turbulence is not confined to its geographic periphery. Its eleventh national elections are expected to be held in the last two weeks of April next year. These elections, according to many observers, are most likely to eventuate in a hung parliament, with no party in possession of a majority of seats and with no alternative to the formation of a potentially fractious and unstable coalition government.

Students of the region trace its political instability to many causes, including socio-economic inequality, overpopulation, the impact of industrialization and rapid urbanization, the spread of literacy and communications, the newness and frailty of political institutions, the absence of deeply-inculcated norms of civil society, the authoritarian legacies of British colonialism, and deepseated ethnic and religious hostilities. While there is little agreement on how much weight to assign to any one of these causes, there is fairly wide agreement that the instability they generate breeds a host of evils--driving up the costs of government; hamstringing its policymakers; breeding corruption, police abuses, and the criminalization of politics; and all the while eroding whatever remains of popular confidence in the institutions of government. In short, the "crisis of governance" afflicting all the countries of South Asia is acting to dissuade their governments from taking the steps we believe (and they often agree) they must take if they are to survive the present century with their parliamentary institutions (and, in some cases, even their present borders) intact and to enter the next with reasonable prospects for achievement of eventual prosperity.

This crisis is not only one of domestic governance, however, for it directly and immediately impacts upon the region's security environment. Frail governments hesitate to pursue bold strategies of reconciliation and accommodation with old adversaries, and instead look for opportunities to exploit

regional enmity through public posturing, emotional mass appeals and external scapegoating. Potentially fruitful negotiations are avoided entirely or, if held, their results are unceremoniously jettisoned. Unproductive and provocative policies are modified, if at all, only in so far as the changes do not jeopardize domestic political interests. Judging, for instance, from the well-established norms of the nearly half-century old Kashmir dispute, Indian Prime Minister Narasimha Rao's recent effort to stage state assembly elections in Jammu and Kashmir state was far from radical: There were no concessions offered at all to Pakistan, and scarcely any either to the Kashmiri resistance leaders. Rao's publicly-announced plan did include a few symbolic concessions of Kashmiri autonomy (offering, for example, to convert the title of the state's chief executive from "chief" to "prime" minister), but they were more window-dressing than anything else. To have offered more, however, would unquestionably have placed his government at even greater political risk than it already is. In short, domestic politics does not merely drive foreign policy, it drives out opportunities for positive change.

We will do well to approach the task of discovering effective countermeasures to South Asia's circumstance of political instability and weakening institutions with realism, humility, and, if possible, even a sense of humor. This circumstance was not created overnight and it will not be made to vanish overnight either. Neither will it be made to go away with exaggerated rhetoric highlighting the shortcomings of this or that South Asian political leader. A fairly recent such description epitomizes the wrong approach. "Pakistan," complained Paula Newberg, a senior associate at the Carnegie Endowment for International Peace,

has two prime ministers. Both are named Benazir Bhutto. Interviewed by David Frost, Ms. Bhutto is an elegant politician who speaks eloquently about opportunities for Muslim women; at home, she retains laws that use Islam to deny rights to women. When she signs agreements with foreign investors during photo opportunities, she epitomizes her nation's aspirations to overcome poverty; but most Pakistanis think her Government's corruption thwarts those dreams.

To Americans, Ms. Bhutto is progressive; at home, to those who trusted her promise of creating democracy, she is disappointingly negligent in promoting it in the Parliament, the press and her own party.

The Government encourages free expression but arrests political opponents, touts the rule of law but packs the courts, campaigns for Bosnian Muslims but callously ignores domestic sectarian violence, speaks for

Kashmiri rights but denies minority rights at home, builds atomic bombs but rarely builds schools....

Between 1988, when Ms. Bhutto was first elected, and 1990, when she was dismissed by Ghulam Ishaq Khan, then President, she did not overcome the legacies of 11 years of military rule....

When Washington courts Ms. Bhutto the democrat, it should remember that the other Ms. Bhutto--and the other Pakistan--are not far behind. [Paula R. Newberg, "The Two Benazir Bhuttos," The New York Times, February 11, 1995, p. 19.]

Let's face it: The "other Pakistan," with its inheritance of "legacies" from the past, presents a formidable challenge to anyone who would reform it. One may argue, of course, that Ms. Bhutto did not rise to the challenge with quite the skill and determination the situation requires; but the situation itself--the political circumstance of institutional weakness and instability--is deeply imbedded in South Asia and clearly will not be changed soon or singlehandedly. It is simply ludicrous, in other words, to expect that Ms. Bhutto could perform according to the standards implied in the quoted article.

#### Rise of Identity Politics.

Students of South Asia speak of involutionist trends, of cultural implosion, of fundamentalist militancy, and of the unleashing of ethnic and religious nationalisms--in short, of "identity politics"--to capture in words the current political upheavals stemming from the region's extraordinary ethnic, tribal, caste, linguistic and religious/sectarian heterogeneity. This species of politics is well known, of course, in America, where appeals for strengthened multiculturalism and respect for diversity have become standard, if not universally honored, icons of progressive political ideology. There is a big difference, of course, in the scale, variety, and sheer volatility of identity politics as experienced in South Asia and the United States. In South Asia, identity politics has a lengthier history, is far more violent and much harder to contain. Moreover, the weight of its impact is felt far more widely there, at every level and in all aspects of politics, than it is in the United States.

Identity politics gives voice to a great variety of demands in the region. These include demands by minorities for territorial and cultural autonomy or independence; but they also include equally adamant demands by majorities for precisely the opposite--that is, for complete political integration and cultural conformity. Identity politics is the single greatest source by far of the civil violence that plagues the region; and

in every state of the region, with the possible exception of the tiny Maldives Republic, it ranks at or near the top of the agenda of public issues. In brief, it is giving shape to, while it fundamentally shakes up, the region's political life.

Currently the most conspicuous, and potentially the most explosive, category of identity politics in the region is religious nationalism, called communalism in India when it refers to Hindu-Muslim hostility, sectarianism when other religious groups are involved, and sometimes spoken of, in India and elsewhere, as religious radicalism or fundamentalism. Religious nationalism is manifest among most of the region's religious groups--Buddhist, Sikh, Muslim, Hindu, and even Christian; and it has shown itself equally potent in the hands of both religious majorities and minorities. Scholars fiercely debate its origins, meaning and impact. There is a near consensus, however, that it is nearly everywhere in the region a powerful political force, one that threatens to bring down the secular traditions that have been enshrined since independence in the constitutions of most of these countries, including India.

In respect to South Asia, Islamic nationalism has enjoyed only limited success. The content of Pakistan's Islamic identity has been contested by Pakistanis ever since independence was gained; and while Pakistan is today one of the few Muslim countries to designate itself officially as an Islamic Republic, and has engaged, especially under President Zia (1977-1988), in an extensive program of public Islamization, it is far from being a radical Islamic state. In fact, thus far in Pakistan's history Islamic nationalist groups have not even come close to achieving control of the government and, so far as one can detect from existing political trends, are not likely soon to do so. Pakistan's several Islamist-oriented parties have never fared well at the polls. Zia's Islamization program was shallow in its scale and designed to a large extent to preempt the radical forces of Islam in the country. Beyond this, there are innumerable divisions within Islam in Pakistan that tend to prevent its unification under a single banner. These divisions, which contributed to the breakup of the country following a catastrophic civil war in 1971, are very deep, and they have worked thus far to pit the Islamic political elements in Pakistan more against one another than against the largely secular-driven government.

How Islam evolves in Pakistan in coming years is of course an extremely important question. After all, South Asia's three largest countries (India, Pakistan, Bangladesh) together contain over 350,000,000 Muslims--by far the largest concentration of Muslims in the world. Hindu-dominant India, with a Muslim minority of about 110,000,000 (12% of the population) also happens to be the third or fourth largest Muslim country in the world (after Indonesia, Pakistan and Bangladesh). What happens

to Muslims in one South Asian country inevitably impacts upon the Muslims, whether a majority or minority, in the others. Pakistan's religious orientation will thus have an impact not only on its own Muslims (and non-Muslims, of course), but upon the Muslims of all its neighbors.

The equivalent in India of the Islamic Revival is the so-called Saffron Surge--the phenomenal growth over the past decade or so in the political appeal of rightwing Hindu nationalism. In part a social and cultural movement purporting to represent the country's Hindu majority (83%) and asserting the importance to India of its Hindu identity ("Hindutva," or Hindu-ness), Hindu nationalism has achieved surprising success in recent elections. The principal political beneficiary of this electoral rise has been the Bharatiya Janata Party (BJP). The BJP's strength in India's national parliament (Lok Sabha) rose from 2 in 1984 to 119 in 1991; and following two waves of state legislative elections ending in April 1995 the BJP is now in power in four states (Maharashtra, Gujarat, Delhi, Rajasthan), while it is the principal opposition party in five others (Uttar Pradesh, Madhya Pradesh, Bihar, Karnataka, and Himachal Pradesh). Put in different terms, the states in which the BJP is now formally in power account for 108 (19.8%) of the 545 seats in parliament; and the states where it is either in power or the principal opposition party account for well over half of India's population.

The BJP's rise to prominence has not been entirely smooth; and a number of setbacks in recent months, including the near collapse last month of the BJP government in the key industrial state of Gujarat, have badly damaged the party's political stock. But its sweeping victory a week ago in municipal polls in the country's most populous and politically critical state of Uttar Pradesh have clearly bolstered its chances in the forthcoming general elections. The BJP has still a considerable distance to go to unseat the ruling Congress party; but there is an unmistakable upward trend visible both in its vote-getting and seat-taking abilities. [See Figures 1 and 2 in Appendix.] The prospects for any political party being able, unaided by coalition partners, to form the next government, in the face of India's increasingly competitive and fragmented political party system, appear to be fading. It is within the realm of possibility, however, for Indians to wake up the morning after the next elections to an India ruled by a coalition government that includes the BJP.

It would be foolhardy to conclude from all this that the South Asian region is in imminent danger of being engulfed by waves of religious fanaticism, whether of Hindu, Muslim, Sikh, or some other stripe. Religious militancy does not characterize the bulk of the populations of any South Asian country; and "fundamentalism," understood as a religious mobilization against

modernism, is not a major political force anywhere in the region. The religious nationalist movements in the region do attract violence-prone lumpen elements with their promise to empower marginal peoples; but very few of the leaders of these groups qualify as religious revolutionaries, and not a few of them, as one author has pointed out, are simply conservative and successful businessmen ("scuppies," or saffron-clad yuppies, to speak only of BJP stalwarts) who see in the religious nationalist movements a healthy, stabilizing influence in their otherwise unruly societies. [Mark Juergensmeyer, The New Cold War? Religious Nationalism Confronts the Secular State (California, 1993), p. 190.]

Nevertheless, religious nationalism is unquestionably an explosive ingredient--in my opinion, moreso than ever before--not only in the domestic politics of these countries but equally in the chemistry of regional security. From its start, the India-Pakistan rivalry over Kashmir has been complicated by its implied threat to the legitimacy not merely of their territorial claims but of their respective national identities. Possession of Kashmir represented, for each side, vindication of the basic principle of identity--the one secular, the other religious--upon which each had been based. The increasing merger of religious with national identity that has gone on in both countries in more recent decades has considerably magnified and complicated this problem. It has, for one thing, placed India's huge Muslim minority under greater suspicion than ever of its divided loyalties and potential for "fifth column" activity in the event of renewed war with Pakistan, placing in serious doubt, to quote the words of a former Indian diplomat in correspondence with me, whether "any government in Delhi could safeguard Muslims against displacement and worse." For another, it has lent to the struggle over Kashmir the aura of a religious crusade, replete with mercenary cohorts from foreign lands, dogmatic intolerance, and merciless reprisals. In this environment, is it any wonder that the unexceptionable comments about India's Muslim-majority and secessionist-plagued state of Jammu and Kashmir by an American Assistant Secretary of State for South Asian Affairs on the eve of her visit to the region should have the Indian political elite and press, for days on end, go nearly topsy-turvy?

## II. INDIA-PAKISTAN RELATIONS

It is my belief that India-Pakistan relations have deteriorated with the lifting of Cold War pressures. It is also my belief that the reasons for this, in so far as domestic political circumstances are concerned, have less to do with the policy preferences of any particular leader, or with the inadequacies of particular proposed solutions, than with what we

might call the "structural givens"--the relatively permanent and inflexible conditions that we have already discussed--that now shape the internal politics of these two states.

This is ironic, since it was widely accepted that with the coming of the post-Cold War era would come also something of a "peace dividend" for South Asia: Freed, in other words, from the entangling alliances arising from global strategic concerns, India and Pakistan might finally reconcile their differences and proceed in peace. As things turned out, however, no dividend has yet been paid and none is likely to appear. Clear now, with the preoccupations of the previous era no longer impairing our vision, is the fact that the India-Pakistan rivalry was more than an offshoot of the global Cold War. In fact, it has very strong "native" roots in South Asia--in the region's resource (especially water) scarcities, contested borders, military and strategic vulnerabilities, competition for markets, not to mention rival Hindu and Muslim national identities--to supply reasonable grounds for fighting well beyond the present.

New to the region's security dynamics, however, is the deeply problematic absence of any outside power able and willing to play the role of power balancer in what by any reckoning is a volatile situation. By turns, that role had been played over the past four decades or so by the United States, the Soviet Union, and--in limited respects--the People's Republic of China. All three of these great or superpowers have declined in the present decade to continue playing that role--Russia and China perhaps more by virtue of necessity than choice, the United States clearly more by choice.

The U.S. "exit" from the region was extraordinarily speedy and, in my judgment, both premature and ill-considered. Pakistan's leaders were fully aware of the fact that, once the last Soviet soldier had departed from Afghanistan, Washington's fidelity to its partnership with Islamabad was bound to shrink. What they appear not to have anticipated, and what has helped to create an unstable regional political situation, or imbalance, to go along with the unstable domestic political situations, was that the U.S. withdrawal from its security role in South Asia would be so nearly complete. The U.S. action was gleefully welcomed in New Delhi, where the news, for instance, that Washington had decided that it could no longer either supply security assistance to Pakistan, in conformity with the 1985 Pressler amendment, or continue to support the "obsolete" UN resolutions calling for a plebiscite in Kashmir brought gasps of (pleased) incredulity. Pakistanis were justifiably stunned by the abruptness of Pakistan's free-fall from third-ranked among a hundred or so recipients of U.S. security assistance in the mid-1980s into nuclear pariahhood--a turnabout that left Pakistan's longstanding friendship with the United States in tatters without any sign of benefit to either side. Pakistanis felt, and Indians

agreed, that they had been ungratefully and uncereemoniously dumped.

The Pressler amendment's passage may at the time have made some sense. It at least kept at bay Washington's army of energetic anti-proliferation gadflies, who might otherwise have obstructed Congressional support of the executive branch's security assistance program for Pakistan. But it obviously did very little to ease the threat of nuclear proliferation in the subcontinent while having a positively devastating impact on Pakistan's military capabilities relative to its longstanding adversary India. Congress was mistaken then in thinking that Pakistan could be starved into nuclear abstention by conditioning U.S. aid on termination of its nuclear program. Overlooked, apparently, were India's much older, more advanced, and larger nuclear program, the relative immunity of that program from Washington's pressure due to India's greater size and military power, and Pakistan's natural dread of an Indian nuclear monopoly.

Recent Clinton administration efforts to restore normal relations with Pakistan, made possible by the Brown amendment's authorization of a one-time lifting of the ban on weapons sales, are to be strongly applauded. They reverse an intolerable and self-defeating policy; and they position the United States to take further steps to achieve a more sensible and productive role in South Asian affairs. This role should obviously be designed with the interests of both India and Pakistan, and indeed the entire region, in mind. Moreover, if it is to contribute successfully to the mitigation of the dangerous domestic political circumstances highlighted earlier in my comments, it must certainly go well beyond--though it should not dogmatically exclude--weapon sales.

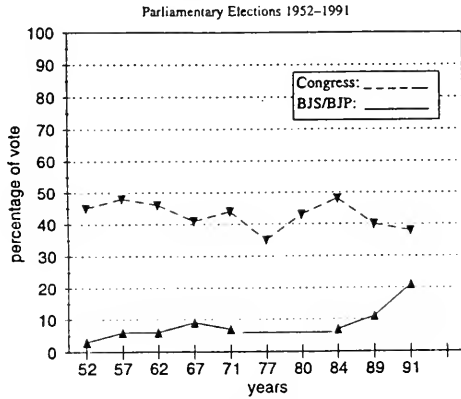
Well to bear in mind here, however, is that Washington's decision to unclog the aid pipeline of \$380 million worth of aging arms will scarcely begin to address the security problems that currently plague the subcontinent. These problems include, but are definitely not restricted to, that of nuclear weapons proliferation. That issue obviously deserves our continuing and most serious attention. But we should take care not to dwell upon it alone: The subcontinent's flashpoints are many and they all require attention. A recent issue of India's premier newsmagazine reports, for instance, that "1995 has seen the highest number of trained militants coming into the [Kashmir] Valley from across the border, and even conservative estimates put the figure at 1,000 a month." [Harinder Baweja, "Resounding Rebuff," *India Today*, November 30, 1995, p. 32.] Only days ago there was a wireservice report that Pakistan forces had flattened with artillery fire an Indian bunker located on the Line of Control at a point from where it could, and allegedly frequently



did, direct heavy machine-gun fire at passing military and civilian vehicles using the Neelam Valley road on the Pakistani side of the line. ["Pakistan says it ends long Kashmir blockade," Reuters wireservice, CompuServe Mail, November 28, 1995.] That action ended the Indian forces' year-long blockade of the strategic road. While it is admittedly difficult to verify either the figures or the events, the evidence is overwhelming that armed conflict--and not just minor skirmishing--has become a routine feature of India-Pakistan relations in the contested area of Kashmir. While these two countries have displayed considerable prudence over the years, on only a few occasions permitting their deep hostility to get out of control and to develop into fullscale fighting, one can not be entirely confident, in the face of present developments, that their hostility can be permanently contained.

## APPENDIX

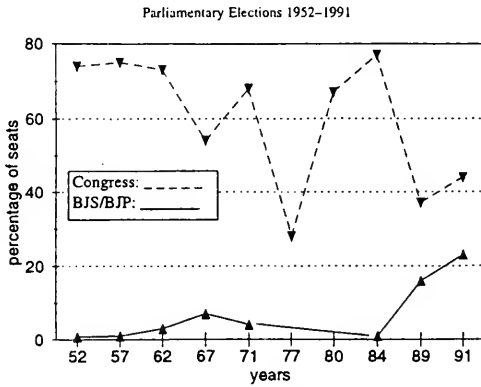
Figure 1. % of Vote for BJS/BJP and Congress



Source: Adapted from Robert L. Hardgrave, Jr. & Stanley A. Kochanek, *India: Government & Politics in a Developing Nation*, Fifth Edition (Fort Worth: Harcourt Brace Jovanovich, 1993), 314, 319-21.

\*The BJS contested the 1977 and 1980 elections as part of the Janata Party coalition. The BJP was formed in April 1980.

Figure 2. % of Seats for BJS/BJP and Congress



Source: Adapted from Robert L. Hardgrave, Jr. & Stanley A. Kochanek, *India: Government & Politics in a Developing Nation*, Fifth Edition (Fort Worth: Harcourt Brace Jovanovich, 1993), 314, 319-21.

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PREPARED REMARKS OF MICHAEL KREPON  
PRESIDENT, HENRY L. STIMSON CENTER  
"U.S. SECURITY INTERESTS IN SOUTH ASIA"  
UNITED STATES HOUSE OF REPRESENTATIVES  
COMMITTEE ON INTERNATIONAL RELATIONS  
SUBCOMMITTEE ON ASIA AND THE PACIFIC  
December 6, 1995

Mr. Chairman:

Thank you for taking the time to hold hearings on this important topic. Your continued attention to this region is clearly warranted, as relations between India and Pakistan continue to worsen, with little prospect in sight for improvement.

India and Pakistan are the only two states capable of waging a nuclear war that exchange small arms fire on a regular basis. Occasionally, artillery shells and mortar rounds are also lobbed across the Line of Control separating the disputed territory of Kashmir. Since neither side wishes to fight a fourth war, escalation control is not deemed a serious problem by most government officials and analysts within the region. Their confidence may be misplaced, since existing conflict avoidance measures, such as "hotlines" and arrangements to respect "no fly" zones, are not working properly and there are no official lines of communication currently operational to make them work better.

One of the paradoxes of conflict avoidance and escalation control measures is that, precisely when they are most needed, they are most difficult to negotiate and implement properly. For these measures to be of greatest utility, they must be in place and work properly before tensions mount. Such conditions do not exist on the Subcontinent, where measures have been implemented begrudgingly, at best. Thus, there is no sound and reliable basis for India and Pakistan to defuse a surge in tension, especially when the two Prime Ministers have a poor regard for each other or are in a weakened position at home. Under these circumstances, whatever steps to be employed in the event of another crisis will have to be ad hoc, and may require third party involvement, if such involvement is welcomed by the two sides.

To make matters worse, Pakistan and India are contemplating the deployment of new, nuclear-capable ballistic missiles, and Pakistan is considering the resumed production of weapons-grade fissionable material. Unlike Pakistan, India has never stopped producing bomb-making material.

One way to gauge the intentions of Pakistan and India with respect to their nuclear weapon capabilities is to observe their negotiating behavior in Geneva, where the Conference on Disarmament

is trying to conclude a comprehensive nuclear test ban treaty and begin negotiations on a global cutoff in the production of weapons-grade fissionable material. Both countries have longstanding commitments to complete these negotiations in good faith. Indeed, since the time of Jawaharlal Nehru, India has been a leading proponent of these essential building blocks to the global elimination of nuclear danger. Successive governments in Pakistan have steadfastly repeated their intention to sign these agreements as long as India joins. It is therefore disheartening and disturbing to see what appears to be a lessened commitment by India and Pakistan to a CTB and to a cutoff treaty in Geneva.

India and Pakistan deserve better than their current impasse, which bleeds both countries while fostering dangerous centrifugal forces and enduring hatreds. Regrettably, the Pakistani and Indian governments have mostly themselves to blame for the current impasse, and there is little that outsiders can do when the parties themselves refuse to take the high road to reconciliation.

The current government of Pakistan has made a conscious decision to close down channels of communication with India, conditioning resumption to a betterment of conditions in Kashmir. India has taken some important steps to improve matters in Kashmir, such as releasing key political leaders from confinement. Conditions there remain dreadful, however, and as a result, Prime Minister Banazir Bhutto can always find reason not to resume dialogue with India. Any resumption of bilateral discussions will be exploited by Bhutto's political opposition. As a consequence, the last formal and private Indo-Pak discussions on security matters took place in January 1994--almost two years ago-- and it is difficult to predict when talks will resume.

Indian Prime Minister P.V. Narasimha Rao has demonstrated a surprising durability in office, but now faces a hungry domestic opposition and a restive political base. His natural tendency has been to respond to Pakistani grievances with studious indifference. Given the Bhutto government's unwillingness to engage India on bilateral issues, Rao's passivity is quite understandable, particularly since any major initiatives on his part to improve relations with Pakistan would provide ammunition for his political opponents.

India resists the creation of a forum to discuss regional security issues with a tenacity at least equal to Pakistan's reluctance to reopen bilateral channels of communication. Southern Asia therefore is the only part of the globe without a forum to discuss regional security issues. The existing regional forum, the South Asian Association for Regional Cooperation, is expressly excluded from discussing security issues by its charter.

Meanwhile, there is no end in sight for the ongoing tragedy in Kashmir, which reinforces hard-line positions in New Delhi and Islamabad. Kashmir has long been the reason for conflict avoidance measures on the Subcontinent. In the current, intractable state of

Pakistani politics, it is also the reason not to engage in official dialogue on such matters. Pakistani media coverage of the Kashmir issue has hardly laid the groundwork for a change in government policy. It will take formidable leadership to engineer such a change, as the city streets of Pakistan, like those in India, have long been mobilized to fan tensions, not to relieve them.

Even with far-sighted and bold political leadership, Pakistan would be hard pressed to initiate gestures of reconciliation with India as long as Kashmir boils. As the weaker party in the dispute, Islamabad has added reason to wait for New Delhi's example. India's Congress(I) Party leaders, however, seem deeply disinclined to initiate change in regional security policies. The Bharatiya Janata Party, the principle domestic opposition to continued Congress rule, could well engineer a change in Indian security policies, but such changes are likely to exacerbate Indo-Pak tensions over Kashmir and the nuclear issue. The BJP continues to call for less Kashmiri autonomy and a more hawkish stance on nuclear weapons.

For New Delhi, the safest position on security matters is one that claims the moral high ground while allowing maximum freedom of maneuver. Thus the ardent embrace of global, nondiscriminatory solutions to security problems that place the burden of action on others. This also suits Islamabad's purposes. The Indian and Pakistani governments are now floating the idea of linking the CTBT and the cutoff negotiations to a time-bound framework for global nuclear disarmament. If such linkage were to become formal, it would hold hostage important achievements to reduce nuclear danger to a future time that cannot be predicted nor enforced.

The CTBT is at last within reach, after more than three decades of effort. This treaty is an essential precondition to the progressive reduction and elimination of nuclear dangers. It would be tragic if this global, nondiscriminatory treaty were derailed in the last phase of negotiations by two key states with long records of supporting global, nondiscriminatory treaties. Another precondition to the progressive elimination of nuclear dangers in a cutoff treaty. Pakistan's and India's resistance to the start up of cutoff negotiations in Geneva is at cross-purposes with longstanding national declarations.

Pakistan and India clearly are moving in the wrong direction. Tensions and nuclear dangers are growing in the Subcontinent, not receding. Thus, the prospects for even small steps to minimize tensions, let alone to promote political reconciliation, are modest at best in the near term. Indian national elections will be held in 1996; Pakistani elections are not scheduled until October 1998. The prospect of elections reinforces the likelihood that Indo-Pak relations will continue to worsen, particularly if tensions rise further in Kashmir or as a result of nuclear weapon programs.

The United States cannot change this bleak forecast--only India and Pakistan can do this. Their region is prone to mishaps,

crises, and tragedy. National leaders in both countries simply have to summon the wisdom and political courage to stop the current slide in relations. Sometimes during periods of great tension, events are in the saddle, rather than weak national leaders. The geography of conflict within the region, which places the Indian and Pakistani armies at close quarters, is immutable, exacerbated by the bitter dispute over Kashmir. In these circumstances, a premium must be placed on escalation control measures.

Most respected analysts and retired senior military officers in both India and Pakistan believe that escalation control is a western preoccupation super-imposed on the Subcontinent. They believe that the development of nuclear weapon capabilities has made a fourth war between India and Pakistan inconceivable. Influential voices in India and Pakistan even call for declaring their nations to be nuclear weapon states and even carrying out nuclear weapon tests. They argue that offsetting nuclear capabilities will provide needed stability to South Asia.

The recent history of South Asia, spiked by two unsettling crises, provides scant testament to the stabilizing role of offsetting nuclear capabilities. Nor have offsetting nuclear weapon capabilities prevented a proxy war in Kashmir or regular exchanges of fire between India and Pakistan. Indeed, nuclear equations are most unsettled and tension-producing at the outset of any such pairing. Invariably, tense relations immediately become more tense when the destructive power of nuclear weapons are added to the equation. The central paradox of offsetting nuclear deployments is that, while they may or may not prevent war, they most assuredly will increase tensions in any crisis. Rumored or actual deployments of nuclear-capable missiles could have especially pernicious consequences in the next South Asian crisis.

Existing escalation control measures between India and Pakistan are not working properly. My interviews with active duty military officers responsible for their implementation in India and Pakistan invariably produce comparable complaints: reasons are found not to provide prior notification of military exercises, and the air space agreement is regularly violated. Demanding proper implementation of escalation control measures is viewed as a belittling and fruitless exercise. Existing measures have become another means of jabbing at an opponent.

With proper implementation, existing escalation control measures can provide a small measure of relief from this region's culture of adversarial politics. Proper implementation is absolutely essential because India and Pakistan show no signs of being prepared to deal seriously with their central grievances, especially the Kashmir dispute. While other regions have made startling progress in resolving contentious disputes, including the Middle East, southern Africa, the Southern Cone of Latin America, and the East-West divide, India and Pakistan remain stuck in the past. If Northern Ireland and England can actively seek breakthroughs, if Israel and the Palestine Liberation Organization

can make peace, why must India and Pakistan hold so stubbornly to their grievances? Is the land of Kashmir any more sacred than the West Bank?

For a start, India and Pakistan need leaders who can find creative ways to surmount domestic political constraints to re-establishing channels of communication on security issues. For both countries, this requires reconsideration of positions that serve short-term political purposes, but at the expense of long-term gains. The government of Pakistan needs to reassess whether its national security interests are well served by holding virtually all of its relations with India hostage to the tragic situation in Kashmir. The government of India needs to reassess whether its national security interests are well served by its steadfast resistance to regional security talks.

Significant change will be possible only when New Delhi and Islamabad reassess their basic strategies toward the Kashmir dispute. Until then, those who wish both countries well are very limited in what they can do to help matters. At present, small steps are needed because the parties seem incapable of taking large ones.

Despite all of their deep grievances, India and Pakistan have a strong mutual interest in avoiding unwanted war and unintended escalation. These may be small steps, but they are nonetheless vital. Surely, both countries must recognize the need to repair and strengthen escalation control measures. The dispute over Kashmir makes such work more difficult to carry out, but more necessary, as well.

ROBERT E. ANDREWS  
FIRST DISTRICT, NEW JERSEY

COMMITTEE  
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INTERNATIONAL RELATIONS  
SUBCOMMITTEE  
ASIA

**Congress of the United States**  
**House of Representatives**  
**Washington, DC 20515-3001**

December 6, 1995

Honorable Doug Bereuter  
Chairman  
Subcommittee On Asia and the Pacific  
B353 Rayburn HOB  
Washington, D.C. 20515

Dear Chairman Bereuter:

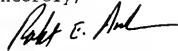
Due to a prior commitment I am unable to attend today's hearing on security interests in Asia. However, with your indulgence I would like to submit the following question to Assistant Secretary of State Robin Raphel for a written response.

"In October 1995 Mr. John Childs, the American Hostage who escaped his kidnappers, recounted his ordeal in a lecture at the University of Hartford's World Affairs Council. Another American, Donald Hutchings, two British and a German national are still being held hostage in the Indian State of Jammu & Kashmir. According to Mr. Childs his kidnappers were a well disciplined unit and were getting their orders from Pakistan. A Norwegian, Mr. Ostro, who had also been taken hostage was beheaded by his captors in mid-August and in a most gruesome act the Al Faran carved its name on his decapitated torso.

Recent press reports have stated that Donald Hutchings is seriously ill and I believe that the terrorists have sent a message that his family be prepared to receive his body. What actions has the State Department taken recently to save the life of Donald Hutchings and secure the freedom of all the hostages?"

Thank you for your time and consideration.

Sincerely,



ROBERT E. ANDREWS  
Member of Congress

REA:kk

REPLY TO

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Question for the Record submitted to A/S Robin Raphel  
House International Relations Committee  
December 6, 1995

Q: In October 1995 Mr. John Childs, the American hostage who escaped his kidnappers, recounted his ordeal in a lecture at the University of Hartford's World Affairs Council. Another American, Donald Hutchings, two British and a German national are still being held hostage in the Indian State of Jammu & Kashmir. According to Mr. Childs his kidnappers were a well-disciplined unit and were getting their orders from Pakistan. A Norwegian, Mr. Ostro, who had also been taken hostage, was beheaded by his captors in mid-August and in a most gruesome act the Al Faran carves its name on his decapitated torso.

Recent press reports have stated that Donald Hutchings is seriously ill and I believe that the terrorists have sent a message that his family be prepared to receive his body. What actions has the State Department taken recently to save the life of Donald Hutchings and secure the freedom of all the hostages?

A: The U.S. Government continues to devote substantial resources to achieving safe release of the four hostages in Kashmir. Information available to the Department of State indicates that the four were still alive and said to be in good condition as of early April 1996. However, Al Faran denies that it holds the four, and has avoided contact with the Indian government and other interlocutors. We maintain a continuing diplomatic presence in Kashmir aimed at exploring every avenue for release. Recent efforts to free the four have focused on groups in and around Kashmir believed to have influence with the kidnappers. In addition, we have arranged broadcast and dissemination of a series of humanitarian appeals, from family members, Islamic groups, and governments. President Clinton also recently

raised this issue with the Indian and Pakistani Prime Ministers. We will continue to do everything in our power to secure the safe release of Mr. Hutchings and the other hostages.

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**Gary L. Ackerman**  
**Congress of the United States**  
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COMMITTEE ON  
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DEMOCRATIC STEERING COMMITTEE

QUESTIONS FOR HON. ROBIN RAPHEL  
SUBMITTED BY REP. GARY L. ACKERMAN

FOR THE RECORD  
DECEMBER 11, 1995

1) New York Times correspondent John Burns has reported extensive Pakistani support for terrorism in Kashmir. Mr. Burns also reported that when Bombay bomb suspect Yakub Memon was arrested last August, he was in possession of Pakistani passports and Pakistani identity documents in his name, and the names of his family members. That seems to be prima facie evidence of Pakistan providing state support for terrorist acts in India.

-- Has our government discussed the Memon case with Pakistani officials? If so, what was their reaction to our concerns?

-- Are any Pakistani officials acknowledging that a grave problem exists?

-- What is their response to the panoply of allegations and evidence pointing toward Pakistani support for terrorism in Kashmir?

2) Ms. Raphel, on September 15, 1995, The Times of India quoted a speech you delivered at a town hall meeting on September 14, 1995, where you stated that Pakistan has aided terrorists in Kashmir and that such aid was continuing.

-- If your statement is true, why does the Department of State not name Pakistan to the list of "State Sponsors of Terrorism"?

-- If Pakistan continues, as you said, aiding militant groups, can we anticipate Pakistan being named to the terrorist list this year?

Question for the Record Submitted to A/S Robin L. Raphel  
House International Relations Asia/Pacific Subcommittee  
December 11, 1995

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-- Has our government discussed the Memon case with Pakistani officials? If so, what was their reaction to our concerns?  
-- Are any Pakistani officials acknowledging that a problem exists?  
-- What is their response to the panoply of allegations and evidence pointing toward Pakistani support for terrorism in Kashmir.

A: We have seen no evidence that the Government of Pakistan was involved in planning or executing the Bombay bombings. The Government of Pakistan denies such involvement, and would have nothing to gain from planning such terrorist acts. We have asked Pakistan to cooperate fully with India's investigation into Yakub Memon's involvement in the bombings and to investigate fully all allegations of contact between the Memon family and Pakistani officials after the bombings.

The Government of Pakistan maintains that it provides only moral and diplomatic support to Kashmiri militants, although it admits that private Pakistanis may provide other support.

Question for the Record Submitted to A/S Robin L. Raphel  
House International Relations Asia/Pacific Subcommittee  
December 11, 1995

Q2: Ms. Raphel, on September 15, 1995 the Times of India quoted a speech you delivered at a town hall meeting on September 14, 1995, where you stated that Pakistan has aided terrorists in Kashmir and that such aid was continuing.

-- If your statement is true, why does the Department of State not name Pakistan to the list of "State Sponsors of Terrorism?"

-- If Pakistan continues, as you said, aiding militant groups, can we anticipate Pakistan being named to the terrorism list this year?

A: In her September 14 remarks, A/S Raphel stated that material and financial support continues to flow from across the border in Pakistan to militants fighting Indian rule in Kashmir.

We have repeatedly urged Pakistan to ensure that support to the militants is discontinued, maintaining that such support is not conducive to ending the violence in Kashmir or finding a political resolution to Pakistan and India's dispute over the territory.

As part of the regular review earlier this year in preparation of the list of State Sponsors of International Terrorism, the Secretary of State determined that available evidence did not support a finding that Pakistan has "repeatedly provided support for acts of international terrorism." Should the evidence warrant such a finding, the

Secretary can designate Pakistan as a state sponsor of terrorism at any time.

## The Outlook

### India and China Take Far-Different Paths

HONG KONG

An epic quest is afoot: India and China, two age-old civilizations but vast and largely poor, are clambering toward modernization. Is it a contest?

True, the quasiosocialist Asian giants vie for capital and the attention of the world's investors. Yet the geographic distance separating China in East Asia from India in South Asia is so great and their domestic economies and cultures so diverse that their apparent rivalry may be false.

"Both countries are on a secular, long-term uptrend," says M.B. Athreya, a management consultant in New Delhi.

Yet it is tempting to judge each by the other. Some Washington officials think democratic India's long-term potential might outstrip authoritarian China's. But former Secretary of State Henry Kissinger is a big fan of China—where he does a lot of consulting.

What animates the sense of rivalry is the realization that both behemoths require huge sums of money to fulfill their ambitions. The World Bank, which already counts Asia's two titans as its largest borrowers, reckons that China and its 1.2 billion people need \$744 billion in the next decade for telecommunications, power, transport and sanitation. India's appetite for capital will prove no smaller as its population surges to well over a billion by the year 2000 from about 900 million now.

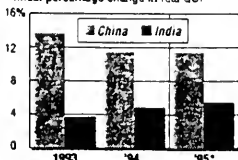
The way many investors see it, there are only two billion-person markets; if one blunders, the other may benefit. When China capped the returns it would allow investors in its power industry, for instance, energy-starved India suddenly got a rush of project inquiries. But, in August, an Indian state, fretting about costs and the environment, spooked investors by deciding to scrap a high-profile, \$2.8 billion power project being built by Houston's Enron Corp. Attention swerved back to China.

The most notable fans of each nation are ethnic loyalists. Overseas Chinese—there are more than 50 million in North America, Taiwan, Hong Kong and Singapore—provide up to two-thirds of all foreign investment in China, by some estimates. Nonresident Indians have been more cautious in their homeland but show rising interest in property, manufacturing and media.

Multinationals, too, show favoritism. U.S. consumer-products giant Procter & Gamble does better in China; its European archrival, Unilever, in India. But a growing number of bosses, led by General Electric's John Welch, are committed to both nations. Giants such as Coca-Cola, AT&T and IBM are building businesses in China and India in tandem. "No generalization about them both would be valid—except that no company in any industry should neglect either of

## Measuring Growth

Annual percentage change in real GDP



\*Projection

Source: IMF World Economic Outlook Report

them," Dominique Turcq, a partner in McKinsey & Co.'s New Delhi office, wrote in a recent article sent to clients.

Both countries offer investors abundant, cheap labor and a wealth of primary commodities. And both promise immense sales opportunities, with huge domestic markets in which hundreds of millions of people are, for the first time, able to buy appliances and consumer products. Beyond that, though, the countries' differences are more pronounced than their similarities.

China has traveled further down the reform path and has the numbers to show for it. Beijing began jettisoning much of its stagnant, 30-year-old Communist system in 1979. Since then, it has grown at an average annual rate of about 10%. Its doors are open to the world: International trade now accounts for about 40% of its total economy, and direct foreign investment since 1979 is approaching \$200 billion. Hard-currency reserves total nearly \$73 billion, among the developing world's highest.

India is rallying from a late start, having launched reforms four years ago amid a fiscal crisis brought on by years of loss-spawning, self-reliant socialism. Since then, economic growth has trundled along at a healthy 4.7% or so. But it is mainly domestic growth. Trade accounts for less than 20% of the economy, and direct foreign investment has totaled less than \$2.5 billion—a fraction of what China has drawn. Its foreign reserves have surged from virtually nothing to \$20 billion on the past four years.

Ultimately, though, what will determine the economic prospects of the two countries is culture. And despite the socialist traditions of both, they are a study in contrasts.

China is an authoritarian state, deliberate and sometimes brutal. India is a free-for-all democracy, slow-moving and sometimes erratic. On the other hand, India has a large, English-speaking, university-trained work force; China's, though often university-trained, is schooled mainly in Chinese. And India has a strong legal tradition—its courts are clogged with cases—whereas China is only developing a rule of law. India's more-open tradition lures its investors; China's decisiveness pleases its backers.

As long as both giants can keep attracting supports, says Merrill Lynch & Co., "there should be sufficient resources for both giants to grow hand-in-hand."

—MARCUS W. BRAUCHLI

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December 5, 1995

Honorable Douglas Bereuter  
International Relations Committee  
Subcommittee on Asia-Pacific  
Rayburn House Office Building  
Washington, DC

Dear Congressman Bereuter,

I regret that I am unable to accept your staff's invitation to testify at the December 6 hearing on South Asian security issues because I must be in Princeton for an international meeting on the future of nuclear power in Asia and its implications for economic development, environmental well-being and security of Asian societies.

It seems to me that the over-arching U.S. objective in South Asia should be to promote regional security. This requires above all an end to the zero-sum thinking and acting among India and Pakistan. To facilitate this objective the U.S. itself must not contribute to the dominant zero-sum game, but instead must pursue a balanced, regional policy that encourages detente.

Unfortunately, the Brown Amendment, with its inclusion of military aid to Pakistan, does not constitute such a policy. It is a Pakistan policy -- and a problematic one at that -- not a regional policy. There is nothing in it for India. Knowingly or not, the U.S. is repeating steps it has taken several times since 1954 when President Eisenhower approved the first major U.S. arms supply to Pakistan, promising India that these weapons would not bring her harm. A decade later, in 1965, Pakistan used these arms to attack India. This same scenario was replayed in October 1970 when President Nixon made a "one-time exception" to existing policy and agreed to ship \$50 million worth of military hardware to Pakistan, only to find this equipment used a year later in the 1971 war which Pakistan ultimately lost. Indians will argue that again in 1990 Pakistan was emboldened to intensify support for insurgents in Kashmir as a result of having received so much American military equipment and training during the Afghan war. (Of course the sources of inflamed resistance in Kashmir were indigenous and related to Indian governmental behavior. Pakistan exploited but did not create the problem). It is worth noting that President Eisenhower rued his 1954 decision: in a January 3, 1957 NSC meeting, Eisenhower called the military treaty and arms supply relationship with Pakistan "perhaps the worst kind of a plan and a decision we could have made. It was a terrible error, but we now seemed hopelessly involved in it." [Foreign Relations of the United States, 1955-57, vol. VIII, pp.25-27].

The point here is not that the military equipment pledged to Pakistan through the Brown Amendment will significantly alter the regional military balance. Rather, it betrays favoritism of Pakistan at the expense of India, and signals to the Indians that the U.S. has failed to learn from the past. This causes political rather than military problems, but politics matter greatly in South



Asia and in Indo-American relations. Notwithstanding Senator Brown's purely motivated intentions, he and the Clinton Administration have taken a half step when a major leap is needed to cross the South Asian abyss.

All of this could be justified if in fact the military aid to Pakistan would facilitate an improvement in Pakistan's domestic political system. The United States does have a significant interest in improved relations with Pakistan, and with a stable, progressing Pakistani state. Unfortunately, there is no indication that any current Pakistani leaders are determined to reform their governmental system, educate the young, and seek rapprochement with India in order to redirect resources and attention to nation-building. Pakistan today is a political, economic and security debacle, and the fault lies with elites, not with the largely illiterate public. No evidence exists to suggest that supplying military aid will help change this. (The non-military portions of the Brown Amendment, and the International Military Education and Training elements, are wholly positive and convey constructive American intentions to the Pakistani people without provoking India.)

People argue that if the U.S. does not supply this military package, more militant political forces will come to power in Pakistan. This should indeed be avoided, but the existing secular actors in Pakistan have their own dear reasons to want to avoid this change, and should not need U.S. military aid to induce them. The situation is beyond redemption if American military equipment is all that is keeping the Pakistan Army from overthrowing the elected government and/or falling under the influence of Islamist rather than more secular leaders. More than American aid, the key issue is whether Pakistan's elite can and will reform itself and begin acting in the interest of all the people rather than plundering the national treasury and embarrassing themselves and their nation with their endless feudal political games. If the current leaders do not reform their own behavior and policies, they will be replaced in any case. Lacking signs of serious political reform in Pakistan, American policy-makers should be careful about supplying military equipment which could fall under the control of demagogic, theologically-garbed forces in the future. In the absence of an increased military threat from India against Pakistan, I would submit that supplying military equipment to Pakistan would make sense only if the Pakistani elite (including the current opposition) were to evidence a strong commitment to political reform and nation-building and could show that military aid would actually augment this process.

These political concerns about Pakistan seem a bit afield from traditional security issues, but I would argue that the greatest security threat in South Asia stems from Pakistan's internal condition.

Ironically, given what I've just said, India will have to take the first step to improve the inter-state security situation in the region. India is the stronger power, with the healthier political system, and, most importantly, with the economy that is going to develop rapidly to provide ever-growing strength. From the U.S. perspective the question then arises, what can we do to foster conditions for an Indian leader to take a bold step on Kashmir, or bold steps to reduce greatly the pressures for deploying missiles and potentially nuclear weapons in the region?

I do not have exact answers to these questions. Atmospherics could be important. Indians point out that Vice President Gore has been to Kazakhstan three times, but not once to India. Secretary of State Christopher has evidenced little interest in South Asia. President Clinton has traveled widely, but never to India. To be sure, the Indians will never be satisfied: many Cabinet officers have gone to India (and Pakistan); the U.S. does encourage private investment in India; Mrs. Clinton did travel to the region. I'm only stating that atmospherics are important.

More programmatically, a U.S. strategy to engage and divert the bureaucracies and industries which drive the nuclear and missile programs in India would be wise. Scientists and engineers want to do valuable, dignified work. Right now much of this is for defense purposes in India, even though in the advanced industrial nations defense technology now lags behind the civilian sector and the key to development is to free technologists from defense work. Energy is the key requirement for economic development in India and Pakistan. The U.S. and other countries have seen major breakthroughs in renewable energy technologies, energy efficiency, and energy management (through deregulation) which could be applied with modifications to India and Pakistan. The Department of Energy should set up programs between Lawrence-Livermore and Lawrence-Berkeley Laboratories and the Indian nuclear establishment to work on a broad array of energy problems, without reference to nuclear weapons or even nuclear power. Other sector-specific engagements to promote alternatives to military applications should be consciously developed in ways designed to appeal to Indian technologists. Science and technology cooperation could be a major lever for achieving American and Indian interests, if more concentrated attention is devoted to modalities.

One thing is certain: public pressure on India and Pakistan to heed U.S. nonproliferation objectives will backfire and create strong domestic political pressures on the current government to defy America. If American politics dictate asking questions about unwelcome Indian policies or rhetoric, then these questions should be couched in neutral terms. It is reasonable and decorous to ask: what Indian interests would be served by opposing or refusing to sign a CTB? How do Indian leaders and the public evaluate the costs and benefits of these policies or their alternatives? By asking these questions rather than attacking possible Indian moves, we may reduce the Indian temptation to focus on U.S. demands and India's need to resist them, rather than on India's real interests in a given matter. (In a straight calculation of Indian interests, for example, the harm of refusing to sign a Comprehensive Test Ban Treaty should be obvious: it would render India a hypocritical moralizer before world opinion; it would inspire serious backlash from Japan and other key nations; it could leave India to blame for a resumption of Chinese nuclear testing, which is one of the major security threats India claims to face; it would leave Pakistan in a position to test at will with the capacity to disrupt Indian politics; etc.)

Most importantly, the U.S. government needs to discuss and identify some sorts of positive inducements for India to support a CTB or fissile material production cut off, or missile non-deployment. The Indians feel that U.S. nonproliferation policy is neo-Colonial and totally negative -- several administration officials have given speeches describing the fissile material production cut off as the way to capture the Indian and Pakistani nuclear programs; this is not a formulation likely to win support in India or Pakistan. They want access to American high

technology, but the U.S. government never gives them a straight answer as to what kinds of access they could get if they take sought after steps. (It is inadequate to say: If the Indians sign the NPT they will get access to a full array of nuclear-related technology. They are not going to sign the NPT and it is counter-productive even to talk about.)

Another key question for U.S. policy is whether we are prepared seriously to pursue the long-term objective of incrementally eliminating nuclear weapons, as we are committed to do by the Nuclear Nonproliferation Treaty. Our failure to exert international leadership to this end, or to alter our national nuclear policy in this direction, only deepens Indian determination to resist the fissile material cut off, a test ban or other constraints. The Indians do not expect short-term disarmament, but they do demand a serious long-term commitment. Such a commitment could be conditioned on a number of necessary changes in regional and global security relationships. The U.S. could define benchmarks which would have to be reached in regional and global arms reductions, verification practices, and so on, in order to allow the U.S. to take each additional step towards denuclearization. The point is to state seriously the goal. The 1994 Nuclear Posture Review, by reaffirming the centrality of nuclear weapons to U.S. military policy, and by refusing to renounce first-use of nuclear weapons despite overwhelming U.S. conventional superiority over all conceivable adversaries, has had a big effect on Indian pundits and diplomats. To them the Posture Review speaks volumes about the hypocrisy and arrogance of U.S. nonproliferation policy toward India. (The problem is not that U.S. nuclear arsenals cause India to seek countervailing nuclear capability. At the military level the two are disconnected. The problem is that politically India will not budge until its claims for equity are met by the U.S. and the other nuclear-weapon states.)

Coming to the specific problem of the potential missile arms race in the subcontinent, the U.S. may have more leverage on Pakistan than on India. Without access to classified information, I assume the Pakistanis are scrambling to produce a seemingly indigenous short-range missile based on the Chinese M-11, but which they hope would not be subject to MTCR sanctions. If the U.S. is to get any security benefits for its Brown Amendment efforts, it should be in winning Pakistani pledges not to deploy either the M-11 or a HATF knock-off. Unfortunately, it is more likely that Pakistan would reject this constraint and instead would come back to the U.S. and press for the F-16s still denied them, emboldened by their success with the Brown Amendment. There is no evidence from the past that provision of the F-16s or other military aid would forestall Pakistan from doing what it otherwise might wish to do. Hence it would be a mistake to provide the F-16s/

While Pakistani restraint from missile deployments is important, Indian restraint from deploying the Prithvi missile in the absence of a precipitating move by Pakistan is perhaps more important today. There is not much the U.S. can do here other than create a general climate of positive and improving relations with India. In the absence of significant positive inducements for Indian non-deployment, the best argument is that India does not need the Prithvi to win a conventional war against Pakistan, but that by deploying Prithvi India could prompt Pakistan to deploy its own missiles *with nuclear warheads*. In this way Pakistan would trump India's conventional military gambit with a nuclear card. Without access to classified information I cannot say whether Pakistan technically can play this card or whether India could match it. If I

had to guess, I would say that Pakistan, with Chinese help, is closer to being able to mount a warhead on their missiles than India is. Any Indian leader who presides over this possible set of moves and counter-moves would become a huge loser. Looking ahead, if Prithvi deployment cannot be avoided, then there could be verifiable constraints on location of deployments and degrees of readiness in India, conveying that there is great sensitivity to avoiding quick escalation of military tensions.

Ultimately I see little prospect of avoiding a missile arms race in the subcontinent without the following conditions: (1) Pakistani leaders willing and able to seek detente with India, entailing some element of compromise on Kashmir; (2) Indian leaders willing and able to offer a gesture to Pakistan to induce dialog, and then prepared to allow a process for Kashmiris to express their unfettered political will; (3) U.S. inducements to heighten Indian interests in not deploying Prithvi, perhaps stretching out the program indefinitely through additional tests, etc.; (4) Chinese and American pressure and support for Pakistan to eschew missile deployments. These and other conditions are far from apparent today. They may never be achieved. But if the U.S. is to augment progress toward these conditions, the very highest reaches of our government must become involved. As talented as our ambassadors and assistant secretaries are, they do not bring the kind of political power and ambiance necessary to affect what are essentially political problems in South Asia.

I've gone on at some length here, although not with as much detail as I would have liked to have provided in testimony. I hope some of this is useful. I'm happy to be of service to you if you return to these matters and think I can help.

Sincerely,



George Perkovich  
Director, Secure World Program

George Tanham

## The costs of the Indo-Pakistan conflict— A view from America

This piece addresses the costs, tangible and intangible, for both India and Pakistan of their continuing tension and conflict. It does not touch on the causes of the conflict nor apportion blame which has been done many times in many places. The potential gains are unclear and uncertain and will not be addressed here.

First, the defence costs for both sides are high. While India spends approximately 2.5 per cent of its GDP on defence, Pakistan spends about three times as much or about 7.5 per cent of its GDP. In 1994, India spent, in absolute terms, approximately 7.3 billion dollars (US) for defence expenditures, while Pakistan allocated 3.4 billion dollars (US) for its armed forces. It will be seen that the financial drain on Pakistan is much higher than on India. Though economists love to talk in terms of percentages of GDP, for the soldier on the battlefield it is not percentages but absolute numbers of weapons that matter. In this case, though Pakistan spends three times as much of its GDP as India, its army and air force are approximately half the size of India's. If there were not this conflict both countries could station fewer troops on their border and to some extent cut down on their military forces. But India also has to be concerned with China, a problem Pakistan does not have, and this does complicate the problem of working out possible reductions of forces. India is larger, richer and more powerful, however, and can likely continue the conflict longer than Pakistan, though the drain hurts.

Though dollars spent are a crude measure of military capability, Pakistan alone cannot match India in conventional power. Both have nuclear programmes but the cost to each of a possible nuclear capability is not known, and the implications of such capabilities have not been fully analyzed. There are also other hidden defence costs in the overall budgets of both countries, but these are not known, though they are estimated to be substantial.

Some of the cost for both countries is spent on maintaining their troops on the Siachen Glacier somewhere between 18 and 20 thousand feet above

sea level in a most desolate area. Though some minor strategic advantages may be at stake the losses in men to the weather alone and the financial cost to both countries raises the question as to whether it is really worth it. If both sides were to withdraw their forces, would it really alter the strategic situation very much? Furthermore, many outside observers wonder what on earth the two countries are up to with their troops sitting on top of the world freezing to death with very little to do and for little real purpose.

Three short but costly wars have shown that there are little or no gains for either side when their conventional military forces are employed. Although in 1971 India did gain a significant victory over Pakistan in East Pakistan, now Bangladesh, the longer-term benefits of this victory are much less clear. It would appear that military forces are not the solution to the problem, though each nation continues to believe that it must have them in order to counter the other.

A second very serious and expensive problem for both nations is internal security. Each alleges that the other is aiding and abetting the dissidence in the other. This outside assistance is aggravating the problems and making the maintenance of internal security more expensive and drawn-out. It also feeds the battle of words between the two and hinders any possible move to alleviate the total problem. Paramilitary forces are not adequately trained or disciplined for the nasty, low-level conflicts they are faced with. These insurgencies or outbreaks of violence tend to hurt the national unity and people-government relationships in both countries, as well as their images in the world. Part of this is due to the fact that the forces do not behave properly and raise human rights issues, both within the two countries and in the world at large.

Both nations have often been forced to use their armies for peacekeeping purposes because of the ineffectiveness of their paramilitary and police forces, and this also has had its costs. In November 1994 the Pakistani army decided to withdraw from

Karachi as the situation had become just too complicated and messy, and they did not want to be continually involved in the unrest there. As a result the situation in Karachi has further deteriorated. The Indian army is active in Kashmir and North-East India and it too does not consider this as its proper role, not all Army troops are trained for this sort of assignment and furthermore it distracts from training for conventional war which is their primary duty. It also hurts their morale as the troops often have to confront and even to shoot their own people and they have to endure long, unpleasant tours of duty away from home. In the case of Pakistan, history has shown that the army has taken over in situations of unrest and violence much to the detriment of democratic development. Even a few Indians fear the Indian Army might feel compelled to do so in India at some time though this is not in keeping with the army's long-held policy of serving under civilian control.

The internal unrest in both countries also hinders economic development as it cannot take place when security does not exist. Insecurity also creates some reluctance in foreigners to invest in either country. Both countries need outside investments and though some is coming in, more might be expected if greater stability existed. Furthermore, the continued instability distracts both governments from concentrating on more constructive and productive issues. It is difficult for a government to concentrate on socio-economic problems when violence exists and people are killed in several parts of the country. Furthermore, world publicity about the violence and the way it is handled hurts both nations. These intangible costs may be even greater than the actual financial costs for the military.

A third negative result of the Indo-Pakistan conflict is its impact on regional cooperation. While various areas in the world seem to be working together in forming free trade areas and in encouraging economic interactions, South Asia remains more or less stagnant in this respect. The South Asian Association for Regional Cooperation (SAARC) formed ten years ago has made little or no progress, at least partially because of the Indo-Pak conflict. The eighth summit meeting of SAARC held in Delhi in May made no real progress towards regional cooperation. Businessmen and others in the area are beginning to realize that the lack of intra-regional trade raises the prices of certain items for everyone in the region. Economic factors may begin to have some influence on SAARC activities,

but this is likely to be a slow process. South Asia is a huge region of approximately 1.2 billion people. It is rich in resources and hardworking people, yet it is not keeping up with other regions such as ASEAN, or even the larger Asia-Pacific area.

Other regions of Asia are starting what are sometimes called triangular arrangements to encourage economic interaction and trade with parts of different countries. One of the first which is under way and working well is the triangle which includes Johore, the southern province of Malaysia, Singapore and the Riau Islands of Indonesia. Industrial and tourist islands have been developed in the Riau to the mutual benefit of Singapore and Indonesia. Johore has also profited from this overall cooperation. There is even some thought of an economic region which would include Thailand, Myanmar, West Bengal and Bangladesh, though this idea has hardly surfaced. It would be a way around SAARC and would involve only parts of South Asia, but it could perhaps lead to greater South Asian cooperation as well as more contact with ASEAN through the Thai relationship.

India has been pursuing a Look East policy, an effort to develop closer economic relations with ASEAN, and to carry out military exercises with its members. ASEAN is proceeding slowly about including India as a full dialogue partner, because it does not wish to become embroiled in India's dispute with Pakistan. India would like to join APEC, and though the door is not completely closed, APEC members share some of ASEAN members' concerns about the Indo-Pak dispute. Pakistan does not face these problems as it looks largely west towards other Islamic nations. However, some of them do not wish to become involved in the conflict as they would like to have good relations with India. The visit of the President of Iran, Rafsanjani, to India in April 1995 with a view towards improving the relationships of the two countries is just one example. Both nations' foreign policies and efforts are hindered and hurt by the conflict.

Lastly, the bitter and continuing conflict between India and Pakistan hurts their standing in much of the rest of the world. It sees them as constantly bickering, tearing down the other, accusing the other of violating human rights, and damaging their images in general. International forums such as the UN and other organizations and conferences are often verbal battlefields between India and Pakistan which are distracting and really do not interest

the rest of the world. However, the fear of war between the two, especially nuclear war, is of concern to most of the world.

In summary, the economic costs to both India and Pakistan in defence, especially on efforts such as the Siachen Glacier, are great, and they are not seen to benefit either nation. Their costly internal security problems continue, and they are diverting the attention and resources of both governments from more important economic and social developments. The situation is not symmetrical, as the cost of internal security seems to be greater for India, while the expenses of conventional war would seem to be a greater burden for Pakistan, but it tends

to balance out. The conflict interferes with regional developments which should be undertaken, and does not improve the world image of either country. Even though both feel that they are right the world sees them as continually bickering and squandering their scarce resources.

Even this brief piece brings out in broad terms some of the very high costs of continued conflict for both nations. An outsider cannot help but wonder if it is all worth it, and perhaps the antagonists should give up. However, both seem to think it is, even though the costs are likely to escalate as time goes on, and the rest of the world progresses and could pass them by. ■

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## UNSUNG BATTLES OF 1962

Lieutenant Colonel Gurdip Singh Kler (Retd)

July 1995 • ISBN 1 897829 09 4

The theme of the book is threefold. Firstly, the author has refuted the acrimonious allegations that Indian troops abandoned their trenches and fled from the battlefield in the face of the enemy in 1962 without any fight and has discounted the slanderous tales about the cowardice of our soldiers.

Secondly, contrarily, the writer narrates the gallant acts of the Indian soldier under the most adverse conditions of height, terrain, arctic weather and extenuating communications. Fighting on the exterior lines, when poorly supplied, troops magnificently stood out in the face of waves of ferocious and overwhelming assaults of the veteran Chinese soldiers of the Korean war where they jabbed through the ranks of the American Army. Though the Indian troops were denied offensive air support, artillery cover was meagre and the terrain was unsuitable for the employment of armour, the performance of the troops was magnificent. Fighting pitched battles, some Indian sub-units in Thagla, Bumla, Walong and Chasul sectors were completely wiped out. Troops fought out tenacious patrol encounters around Sela and kept the enemy at bay for almost a month. They also uprooted enemy road-blocks at Nyukmadong, below Sela.

Thirdly, Colonel Kler has made certain pragmatic and cogent suggestions regarding re-location of Headquarters Eastern Command and its formations in the distant, increasingly active and vibrant East. He has some ideas to put forward about the defence forces in general. He has also advanced practical and sound solutions regarding the vexed historical frontiers with China and the festering Jammu and Kashmir problem, the legacy of the partition of the subcontinent. The two balanced solutions can certainly impart stability to India and the region.

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STATEMENT OF REP. GARY L. ACKERMAN  
ON ECONOMIC OPPORTUNITIES IN SOUTH ASIA  
APRIL 18, 1996

I commend both Chairmen for calling this joint hearing on an increasingly important aspect of our relations with South Asia.

Too often, I believe, when people look for investment or trade opportunities in emerging markets in Asia, they look to China with its 1.2 billion people. I think that investors should be looking at India with its population of 900 million, a consumer class approaching 200 million, and a common language and form of government.

India also has a highly educated and skilled workforce with the world's second largest pool of software engineers and significant strength in high-tech fields such as super-computers and aerospace research.

The United States is beginning to recognize these strengths. U.S.-India trade grew by 19 percent in 1995 alone, from \$7.6 billion in 1994 to \$9 billion in 1995. The United States is the largest trading partner of India. U.S. exports to India account for 12 percent of total Indian imports while Indian exports to the U.S. account for 18 percent of all Indian exports.



This expanding relationship is based on two significant factors. The first is the recognition by the late Ron Brown, that India is one of the top ten newly emerging markets and then aggressively pursuing opportunities for U.S. businesses by leading a highly successful trade mission and establishing the U.S.-India Commercial Alliance aimed at generating new bilateral business development efforts. We will all miss Ron's energy and enthusiasm.

The other factor is that the Indians themselves opened the door for these opportunities with a significant program of economic liberalization begun by Prime Minister Rao. That program includes tariff reductions, full convertibility of the Rupee, and the removal of restrictions on foreign investment. When I was in India this past January, I met with the Prime Minister and took the opportunity to express my support for these reforms and to urge further steps to continue our expanding trade relationship.

Mr. Chairman, we often spend our time discussing difficult security and proliferation issues in regard to South Asia. I am pleased today we can discuss an issue which will bring the United States closer to an important region of the world and will focus attention on the outstanding opportunities available for U.S. businesses.

## **Economic Opportunities and Pitfalls in South Asia**

Opening Statement  
Rep. Howard L. Berman  
April 18, 1996

o Yesterday, at the Subcommittee's hearing on Northeast Asia, we were told that China was the emerging Asian giant of the 21st Century.

o Today, our agenda is the emerging economic colossus of South Asia.

o In many ways, South Asia - especially India - represents a more attractive future for American business.

o Every year seems to bring a new set of topics to the debate on whether or not to grant China most-favored-nation status. No such annual discussion affects our relations with India.

o Unlike China, as one of today's witnesses - Vinod Gupta - will point out, India offers foreign investors a common law legal system, property rights, freedom of the press and religion, and a democratic political system. These provide real assurances to foreign investors -- unlike those now provided to foreign companies trying to navigate through the shoals of a supposedly Chinese free market which is still governed by a communist political system.

o I was in India last year and witnessed for myself the tremendous economic vitality which has driven India's growth rates to over 5%.

o The radical economic reform measures taken by Finance Minister Manmohan [MAN-MO-HAN] Singh since 1991 are unlikely to be reversed. No longer does one hear of the so-called "Hindu rate of growth" which supposedly set a ceiling of 3% on India's growth rates. The future promises to be bright.

o Needless-to-say, however, problems remain to be overcome. Indian barriers to consumer good imports, the need to ensure adequate intellectual property right protection, and the need to increase opportunities for foreign investors in financial services, insurance, and telecommunications are some of the sectoral reforms critical to India's future.

o From my discussions with India's leaders, including Prime Minister Rao, I am convinced of their commitment to transforming the Indian economy into one which is dynamic, internationally competitive and a close partner with the U.S. Already, the U.S. has become India's largest trading partner and, I believe, it will remain so.

WRITTEN STATEMENT OF RAYMOND E. VICKERY, JR.  
ASSISTANT SECRETARY FOR TRADE DEVELOPMENT  
U.S. DEPARTMENT OF COMMERCE

U.S. House of Representatives  
Committee on International Relations  
Joint Hearing of the  
Subcommittee on Asia and the Pacific  
and the  
Subcommittee on International Economic Policy and Trade

April 18, 1996

THANK YOU, MR. CHAIRMAN. I AM PLEASED TO HAVE THE OPPORTUNITY TO OFFER TESTIMONY ABOUT AMERICA'S GROWING COMMERCIAL ROLE IN SOUTH ASIA.

FIRST, THOUGH, I WOULD LIKE TO TAKE A MOMENT TO PAY TRIBUTE TO SECRETARY BROWN AND THE OTHERS WHO DIED IN THE TRAGIC ACCIDENT IN CROATIA TWO WEEKS AGO. AS PRESIDENT CLINTON HAS DECLARED, THEY WERE ALL PATRIOTS, SERVING THEIR COUNTRY BY HELPING TO IMPROVE CONDITIONS IN A WAR-TORN PART OF THE WORLD. SECRETARY BROWN KNEW THAT PEACE AND PROSPERITY GO HAND IN HAND -- NOT JUST IN THE BALKANS BUT ALSO IN SOUTH ASIA AND AROUND THE WORLD. HE BELIEVED THAT EXPANDED TRADE AND INVESTMENT ARE A SURE PATH TO INCREASED UNDERSTANDING AS WELL AS GREATER ECONOMIC OPPORTUNITY FOR ALL. AT THE COMMERCE DEPARTMENT, OUR FALLEN LEADER AND COLLEAGUES ARE SORELY MISSED.

SECRETARY BROWN WAS A GREAT FRIEND OF INDIA AND THE OTHER COUNTRIES OF THE SOUTH ASIA REGION. ONLY LAST MONTH, HE JOINED THE MEETING OF THE U.S.-INDIA COMMERCIAL ALLIANCE IN NEW DELHI VIA AN AUDIO LINK. AT THAT TIME, HE PLEDGED HIS CONTINUING SUPPORT FOR THE ALLIANCE -- WHICH HE HAD INAUGURATED THE PREVIOUS YEAR -- AND NOTED THAT HE WAS PLANNING TO RETURN TO INDIA THIS JUNE. IN FACT, HE HAD PREPARED TO GO TO INDIA AND PAKISTAN IN JANUARY, BUT THAT MISSION WAS POSTPONED AT THE LAST MINUTE DUE TO THE LACK OF A CONTINUING BUDGET RESOLUTION. WE WERE PLANNING FOR A RESCHEDULED TRIP TO INDIA AND PAKISTAN AND HAD JUST SPOKEN WITH REPRESENTATIVES OF SRI LANKA AND BANGLADESH WHEN TRAGEDY STRUCK.

I AND MY COLLEAGUES AT THE COMMERCE DEPARTMENT LOOK FORWARD TO WORKING WITH SECRETARY KANTOR TO BUILD UPON SECRETARY BROWN'S LEGACY.

IF I CAN MAKE ONE POINT TODAY, IT IS THAT THE UNITED STATES IS AT A HISTORIC MOMENT WITH REGARD TO SOUTH ASIA. ALL OF THE COUNTRIES IN THE REGION HAVE EMBARKED ON ECONOMIC LIBERALIZATION PROGRAMS THAT ARE OPENING DOORS PREVIOUSLY CLOSED TO U.S. TRADE AND INVESTMENT.

WHILE TRADITIONALLY A REGION OF LIMITED COMMERCIAL POSSIBILITIES, SOUTH ASIA IS BECOMING A PROMISING MARKET FOR U.S. BUSINESS, CREATING GREAT OPPORTUNITIES FOR U.S. JOB CREATION AND EXPORTS. NOWHERE IS IT WRITTEN THAT POVERTY MUST CONTINUE TO BE THE SCOURGE OF SOUTH ASIA. WITH ECONOMIC REFORM AND INTEGRATION WITH THE WORLD ECONOMY, SOUTH ASIA CAN EXPERIENCE THE KIND OF ECONOMIC GROWTH THAT WILL SUBSTANTIALLY BENEFIT AVERAGE CITIZENS THROUGHOUT THE REGION.

WITH APPROXIMATELY 1.3 BILLION PEOPLE, AMBITIOUS PLANS TO MODERNIZE AND EXTEND INFRASTRUCTURE, AND POLICIES THAT ARE OPENING INDUSTRIAL SECTORS SUCH AS POWER GENERATION AND TELECOMMUNICATIONS TO FOREIGN COMPANIES, SOUTH ASIA WARRANTS MORE ATTENTION FROM A COMMERCIAL PERSPECTIVE.

WHETHER OR NOT WE RISE TO THIS CHALLENGE HAS TREMENDOUS IMPLICATIONS FOR U.S. EXPORTS AND JOBS.

INDIA AND PAKISTAN ARE THE LARGEST MARKETS IN THE REGION, AND I WILL CONCENTRATE ON THEIR CHANGING BUSINESS CLIMATE AND THE EXPANDING ACTIVITIES OF U.S. COMPANIES. HOWEVER, WE NOTE THAT SRI LANKA AND BANGLADESH ALSO HAVE LAUDABLE PLANS FOR ECONOMIC EXPANSION, WHICH WE BELIEVE ARE DEPENDENT FOR THEIR SUCCESS ON MARKET-DRIVEN SOLUTIONS RATHER THAN INTERNATIONAL AID.

I ALSO WOULD LIKE TO HIGHLIGHT WHAT WE ARE DOING AT THE COMMERCE DEPARTMENT IN TERMS OF ADVOCACY AND ASSISTANCE FOR U.S. BUSINESS IN THESE MARKETS.

WE HAVE DESIGNATED INDIA AS ONE OF THE BIG EMERGING MARKETS, AND SECRETARY BROWN LED A PRESIDENTIAL BUSINESS DEVELOPMENT MISSION TO NEW DELHI, BANGALORE AND BOMBAY IN JANUARY 1995. THIS AFTERNOON, I WOULD LIKE TO REVIEW WITH YOU THE ACCOMPLISHMENTS OF THAT MISSION AND ITS CONTINUING IMPACT.

THIS HEARING PROVIDES AN OPPORTUNITY TO HIGHLIGHT THE IMPORTANCE

OF THESE MISSIONS AND OUR OTHER TRADE PROMOTION AND ADVOCACY ACTIVITIES AND TO CONVEY TO YOU THE IMPACT OF THE CONTINUING BUDGET DIFFICULTIES ON THEM.

EACH TRADE OPPORTUNITY IS AVAILABLE FOR ONLY A LIMITED TIME. IF U.S. COMPANIES ARE TO TAKE ADVANTAGE OF THESE OPPORTUNITIES, THE COMMERCE DEPARTMENT MUST BE QUICK IN ALERTING COMPANIES, COUNSELING THEM AND SUPPORTING THEIR PROPOSALS. ALL OF THIS TAKES ON PARTICULAR IMPORTANCE IN SOUTH ASIA, WHERE AMERICAN COMPANIES HAVE NO OR VERY LIMITED EXPERIENCE AND OFTEN ARE BIDDING ON GOVERNMENT TENDERS OR FACING A MYRIAD OF GOVERNMENT APPROVALS. IF THE COMMERCE DEPARTMENT IS CLOSED OR, AS IS THE CURRENT SITUATION, OPERATING WITH FEWER AND FEWER RESOURCES, THE CONSEQUENCES ARE OBVIOUS FOR OUR ABILITY TO HELP COMPANIES WIN CONTRACTS AND SUPPORT THE JOBS ASSOCIATED WITH EXPORTS.

#### STRENGTHENING OUR COMMERCIAL ENGAGEMENT WITH INDIA

WITH REGARD TO TRADE RELATIONS WITH INDIA, SECRETARY BROWN HAS LEFT BEHIND A ROCK-SOLID LEGACY. THE WATERSHED EVENT IN THAT RESPECT WAS HIS JANUARY 1995 VISIT TO INDIA. I HAD THE HONOR OF HELPING PLAN AND IMPLEMENT THE MISSION AND OF JOINING HIM ON THE TRIP. WE TOOK WITH US A DELEGATION OF SOME 26 U.S. BUSINESS LEADERS REPRESENTING LARGE, MEDIUM AND SMALL-SIZED COMPANIES FROM A WIDE RANGE OF SECTORS.

THE OBJECTIVE OF THE MISSION WAS TO LAY A FOUNDATION FOR A NEW COMMERCIAL RELATIONSHIP. INDIA'S NEW MARKET-ORIENTED ECONOMIC POLICIES PROVIDE AN UNPRECEDENTED OPENING TO ONE OF THE WORLD'S LARGEST, BUT HITHERTO CLOSED MARKETS.

INDIA ALREADY HAS THE WORLD'S 12TH LARGEST MANUFACTURING BASE AND A GROWING CONSUMER CLASS, ESTIMATED TO BE WELL OVER 100 MILLION. ITS LIBERALIZATION SHOULD STIMULATE GROWTH THAT WILL PROVIDE SUBSTANTIAL OPPORTUNITIES FOR U.S.-INDIAN COMMERCIAL COOPERATION AND THE CREATION OF MANY AMERICAN JOBS.

DURING THE MISSION, SECRETARY BROWN WITNESSED THE SIGNING OF CONTRACTS AND MEMORANDA OF UNDERSTANDING AND FURTHERED DEALS WORTH SOME \$7 BILLION -- A RECORD FOR ANY PRESIDENTIAL BUSINESS DEVELOPMENT MISSION AND INDICATIVE OF THE ENORMOUS POTENTIAL OF THE INDIAN MARKET. MORE IMPORTANTLY, I AM ABLE TO REPORT TO YOU THAT THE VAST MAJORITY OF THESE DEALS EITHER HAVE BEEN COMPLETED OR ARE ON TRACK FOR FULFILLMENT. IN SEVERAL INSTANCES, COMPANIES

WITH WHOM WE WORKED HAVE FOUND ADDITIONAL OPPORTUNITIES BASED IN PART ON THE EFFORTS OF OUR MISSION.

OF COURSE, THE REAL WORK WAS DONE BY THE COMPANIES THEMSELVES, WITH THE U.S. GOVERNMENT WORKING TO BRING DISCUSSIONS TO A SUCCESSFUL CONCLUSION. IN THIS CONNECTION, I WOULD LIKE TO HIGHLIGHT THE IMPORTANCE OF THIS PUBLIC-PRIVATE COOPERATION IN INDIA AND THE OTHER COUNTRIES OF SOUTH ASIA.

IN INDIA, FOR EXAMPLE, THE MAJOR INFRASTRUCTURAL PROJECTS ARE SANCTIONED OR SPONSORED BY THE INDIAN NATIONAL OR STATE GOVERNMENTS. VIGOROUS SUPPORT BY THE COMMERCE DEPARTMENT OF U.S. COMPANIES' BIDS AND PROPOSALS AT ALL LEVELS CAN OFTEN MAKE A DIFFERENCE BOTH IN OBTAINING APPROVALS AND IN EXPEDITING BUREAUCRATIC PROCEDURES.

WE ARE VERY AGGRESSIVE IN OUR SUPPORT OF U.S. COMPANIES AND HAVE DEVELOPED PROCEDURES IN OUR ADVOCACY CENTER TO MONITOR PROGRESS OF THE PROJECTS ON WHICH AMERICAN FIRMS HAVE ASKED FOR OUR ASSISTANCE.

ADVOCATING FOR U.S. COMPANIES AND SIGNING DEALS WAS JUST PART OF SECRETARY BROWN'S AIMS IN VISITING INDIA LAST YEAR. THE MISSION WAS PART OF A BROADER ADMINISTRATION EFFORT TO FORGE CLOSER TIES WITH INDIA'S LEADERS IN GOVERNMENT AND BUSINESS AND TO BEGIN A DIALOGUE THAT WOULD PROVIDE NEW MOMENTUM TO BUILDING COMMERCIAL TIES, ADDRESSING IMPEDIMENTS TO TRADE AND INVESTMENT, AND PAVING THE WAY FOR JOB-CREATING OPPORTUNITIES IN THE UNITED STATES.

AN IMPORTANT ACHIEVEMENT -- AND SYMBOLIC OF THE NEW COMMERCIAL RELATIONSHIP WE AIM TO BUILD -- WAS THE ESTABLISHMENT OF THE U.S.-INDIA COMMERCIAL ALLIANCE.

THE ALLIANCE IS AN INITIATIVE AIMED AT GENERATING NEW BILATERAL BUSINESS DEVELOPMENT EFFORTS AND A NEW GOVERNMENT-BUSINESS DIALOGUE OVER A TWO-YEAR PERIOD.

WHILE THE AGENDA IS BEING DRIVEN BY A PRIVATE SECTOR BOARD, BOTH THE INDIAN COMMERCE MINISTER AND SECRETARY BROWN HAD AGREED TO PARTICIPATE IN BOARD MEETINGS AND TO RESPOND TO THE BOARD'S RECOMMENDATIONS ON WAYS TO FACILITATE BILATERAL COMMERCE.

SECRETARY BROWN'S PLANNED VISIT TO INDIA LAST JANUARY WAS TIMED

TO COINCIDE WITH THE COMMERCIAL ALLIANCE BOARD MEETING, AT WHICH THE RESULTS OF THE FIRST YEAR WERE TO HAVE BEEN REVIEWED AND A WORK PLAN FOR THE ALLIANCE'S SECOND YEAR DEVELOPED. POSTPONING THE VISIT LED TO A POSTPONEMENT OF THE BOARD'S MEETING

AS I HAVE NOTED, THE BOARD MEETING WAS EVENTUALLY HELD IN MARCH, AND THE SECRETARY PARTICIPATED VIA AN AUDIO LINK. IN FACT, THIS MEETING EXCEEDED OUR GOALS, PRODUCING AMBITIOUS SECTORAL WORK PLANS INVOLVING COLLABORATION BETWEEN THE PRIVATE SECTORS FROM BOTH COUNTRIES. THE DATE FOR THE NEXT BOARD MEETING HAS BEEN SET TENTATIVELY FOR OCTOBER 17 IN WASHINGTON.

HOWEVER, DESPITE THIS SUCCESS, INEVITABLY, MOMENTUM WAS LOST IN THE JANUARY DELAY, AND A PRIME OPPORTUNITY TO DISCUSS WAYS TO IMPROVE THE BUSINESS CLIMATE BETWEEN OUR TWO COUNTRIES FORFEITED. FOR EXAMPLE, DURING THE PLANNED JANUARY VISIT, SECRETARY BROWN ALSO HAD HOPED TO CONCLUDE MEMORANDA OF UNDERSTANDING TO ENCOURAGE COMMERCIAL COOPERATION IN ENVIRONMENTAL PROJECTS AND TO LAUNCH AN INITIATIVE THAT WOULD ASSIST SMALL AND MEDIUM-SIZED FIRMS IN REAPING THE REWARDS OF U.S.-INDIAN COMMERCE.

#### PERSPECTIVES ON THE INDIAN BUSINESS CLIMATE

THE INDIA MISSION LAST YEAR WAS AN EYE-OPENER FOR MANY U.S. BUSINESSES AND HELPED PUT INDIA ON THE ECONOMIC MAP OF THE WORLD. THE BUSINESS DYNAMISM BEING GENERATED BY INDIA'S NEW POLICIES IS IMPRESSIVE. INDIAN INGENUITY AND ENERGY ARE FLOURISHING IN A CLIMATE FREER OF STIFLING BUREAUCRATIC CONTROLS. THE ECONOMIC GROWTH THIS IS PRODUCING, ALONG WITH THE REDUCED TARIFFS AND INVESTMENT RESTRICTIONS, IS CREATING UNPRECEDENTED OPPORTUNITIES FOR U.S. COMPANIES IN VIRTUALLY EVERY SECTOR -- BUT ESPECIALLY IN INFRASTRUCTURE AREAS SUCH AS POWER GENERATION, TELECOMMUNICATIONS AND TRANSPORTATION.

BARRIERS REMAIN, AND INDIA REMAINS A DIFFICULT MARKET FOR U.S. COMPANIES. I CAN ASSURE YOU THAT SECRETARY BROWN, I, AND OTHER COMMERCE DEPARTMENT OFFICIALS USED LAST YEAR'S VISIT AND SUBSEQUENT MEETINGS WITH INDIAN OFFICIALS TO URGE THEM TO CONTINUE ECONOMIC LIBERALIZATION, IMPROVE INTELLECTUAL PROPERTY PROTECTION, INCREASE TRANSPARENCY IN PUBLIC TENDERS AND CARRY OUT OTHER MEASURES THAT WOULD HELP INDIA TO ACHIEVE ITS DEVELOPMENT GOALS AND TO FACILITATE OUR COMPANIES' ABILITY TO WORK WITH INDIA IN THIS ENDEAVOR.



LAST YEAR, THE INDIAN GOVERNMENT FURTHER REDUCED TARIFFS AND TOOK OTHER STEPS THAT WILL BOTH FOSTER ECONOMIC GROWTH IN INDIA AND OPEN NEW OPPORTUNITIES FOR U.S. COMMERCE.

WE EXPECT THIS PROCESS TO CONTINUE. ALTHOUGH INDIA WILL HOLD NATIONAL ELECTIONS THIS MONTH AND IN MAY, OBSERVERS OF THE INDIAN SCENE ARE UNANIMOUS THAT ECONOMIC REFORM IS IRREVERSIBLE.

#### RECENT DEVELOPMENTS AND TRENDS IN U.S.-INDIAN COMMERCE

AS INDIANS AND U.S. COMPANIES BECOME MORE FAMILIAR AND COMFORTABLE WITH EACH OTHER, WE EXPECT THAT SOME OF THE START-UP PROBLEMS -- SUCH AS THOSE ENCOUNTERED BY ENRON IN ITS DABHOL POWER GENERATION PROJECT AND BY PEPSICO IN OPENING KENTUCKY FRIED CHICKEN (KFC) RESTAURANTS -- WILL FADE.

BOTH ENRON'S DABHOL PROJECT AND KFC ILLUSTRATE THE SUBSTANTIAL OPPORTUNITIES FOR U.S. COMPANIES IN INDIA. THE ENRON PROJECT WILL HELP INDIA TO ALLEVIATE ITS OVERWHELMING NEED FOR ADDITIONAL POWER GENERATION. THE ENTRY OF KFC HIGHLIGHTS THE GROWING NUMBERS OF INDIAN CONSUMERS WITH DISPOSABLE INCOME AND INTEREST IN THE GOODS AND SERVICES THAT U.S. COMPANIES CAN PROVIDE.

AS PIONEERING AND HIGH PROFILE VENTURES, IT IS NOT SURPRISING THAT THEY ENCOUNTERED WHAT SOME HAVE TERMED "BUMPS IN THE ROAD."

CERTAIN SECTORS, SUCH AS POWER GENERATION AND TELECOMMUNICATIONS, ARE JUST BEING OPENED TO THE PRIVATE SECTOR. SOME INDIAN OFFICIALS ARE STILL LEARNING ABOUT COMMERCIAL COSTS AND FINANCING ASSOCIATED WITH LARGE PRIVATE SECTOR PROJECTS. THEY ARE ALSO STILL DEVELOPING PROCEDURES FOR DEALING WITH PRIVATE SECTOR COMPANIES. HOWEVER, EVEN IN THESE EARLY STAGES OF PRIVATE SECTOR DEVELOPMENT, SOME U.S. COMPANIES HAVE BEEN QUITE SUCCESSFUL.

RECENT MONTHS HAVE SEEN SOME GRATIFYING BREAKTHROUGHS IN THE POWER SECTOR IN INDIA. THE CONVENTIONAL WISDOM WAS THAT THERE COULD BE NO PROGRESS IN THIS AREA UNTIL AFTER THE ELECTIONS; BUT I AM HAPPY TO REPORT THAT THE CONVENTIONAL WISDOM WAS WRONG.

THERE WAS A SETTLEMENT REACHED BETWEEN THE GOVERNMENT OF THE STATE OF MAHARASHTRA AND ENRON THAT WILL ALLOW WORK TO RESUME ON THE DABHOL POWER PROJECT -- REPRESENTING THE LARGEST FOREIGN INVESTMENT EVER IN INDIA.

OF THE OTHER "FAST TRACK" POWER PROJECTS SPONSORED BY U.S. COMPANIES, THE GOVERNMENT OF INDIA IS EXPECTED TO ISSUE COUNTERGUARANTEES SOON FOR TWO OF THEM, WHILE PROGRESS IS ALSO BEING MADE ON TWO OTHERS. AND ONE FAST-TRACK PROJECT IS PROCEEDING ALONG WITHOUT A GOVERNMENT OF INDIA COUNTERGUARANTEE.

ALL TOLD, THESE SIX "FAST-TRACK" POWER PROJECTS (DABHOL, NEYVELI, JEGURUPADU, KAKINADA, MANGALORE AND IB VALLEY 3 & 4) ARE WORTH SOME \$4 TO \$6 BILLION. THAT REPRESENTS A LOT OF JOBS IN BOTH INDIA AND THE UNITED STATES.

IN THE TELECOMMUNICATIONS SECTOR, INDIA IS OPENING BOTH THE BASIC AND CELLULAR TELEPHONE SERVICES TO PRIVATE -- INCLUDING FOREIGN -- INVESTMENT. WHILE THERE HAVE BEEN SOME DISCONTINUITIES IN THE BIDDING PROCESS FOR THOSE LICENSES, U.S. COMPANIES HAVE HAD SUCCESS ON THE ROAD TO PROVIDING TELEPHONE SERVICES IN INDIA. FURTHERMORE, I WAS GRATIFIED TO SEE THAT INDIA'S SUPREME COURT RECENTLY UPHELD THE GOVERNMENT'S DECISION TO END THE STATE MONOPOLY OVER TELEPHONE SERVICE -- WHICH SHOULD ENCOURAGE CONFIDENCE IN THE EFFECTIVENESS AND RELIABILITY OF INDIA'S JUDICIAL SYSTEM. FINALLY, WE HAVE ENCOURAGED THE INDIAN GOVERNMENT TO PASS LEGISLATION TO ESTABLISH A TELECOMMUNICATIONS REGULATORY BODY, WHICH WOULD PROVIDE PREDICTABILITY IN THIS IMPORTANT SECTOR.

IN THE CONSUMER GOODS AND SERVICES SECTOR -- WHICH INDIA HAS LONG KEPT LARGELY SHUT TO FOREIGN FIRMS AND IMPORTS -- A NUMBER OF AMERICAN FIRMS, SUCH AS PEPSICO, KELLOGG'S AND WHIRLPOOL, ARE MAKING AN IMPACT. WE BELIEVE THE DAY IS COMING WHEN CONSUMER GOODS AND SERVICES IMPORTATION WILL BE JUDGED BY THEIR CONTRIBUTIONS TO THE OVERALL PROSPERITY OF INDIA, NOT ON STANDARDS OF IMPORT SUBSTITUTION.

WHILE IT IS STILL IMPOSSIBLE TO IMPORT MOST CONSUMER GOODS AND SERVICES INTO INDIA, A MORE FLEXIBLE APPROACH TO FOREIGN INVESTMENT IS ENABLING U.S. CONSUMER PRODUCTS COMPANIES TO GAIN ACCESS TO THE INDIAN MARKET.

FOR EXAMPLE, PEPSICO'S MANY JOB-CREATING ACTIVITIES IN INDIA HAVE CLEARLY DEMONSTRATED THAT THE INDIAN ECONOMY BENEFITS FROM ITS PRESENCE. INDIA HAS PLACED GREAT EMPHASIS ON IMPROVING ITS FOOD PROCESSING AND PACKAGING AS A MEANS OF REDUCING THE LOSSES IN AGRICULTURAL PRODUCTION AND EXPANDING THE OUTLETS FOR ITS

IMPORTANT AGRICULTURAL SECTOR. PEPSICO'S CONTRIBUTION TO THIS PROCESS HAS BROUGHT LARGE BENEFITS TO INDIA.

WHILE A FEW HIGH PROFILE PROJECTS AND INITIATIVES MAY HAVE ENCOUNTERED PROBLEMS, MANY U.S. COMPANIES' PROJECTS HAVE GONE FORWARD SMOOTHLY, AND MANY OTHER COMPANIES ARE EXPLORING THE MARKET.

SO FAR, WE HAVE FOUND MORE INTEREST IN INDIA AMONG LARGER U.S. COMPANIES, THOSE THAT ARE MOST ACTIVE INTERNATIONALLY. NONETHELESS, WE BELIEVE THAT THERE ARE INCREASING OPPORTUNITIES THAT SHOULD BE OF INTEREST TO SMALL AND MEDIUM-SIZED COMPANIES. FOR EXAMPLE, THERE IS A STRONG DEMAND FOR INFORMATION TECHNOLOGY EQUIPMENT IN INDIA THAT SHOULD BE OF INTEREST TO COMPANIES OF ALL SIZES AS THEY LOOK ABROAD.

ALL IN ALL, WE EXPECT THAT U.S. TRADE WITH AND INVESTMENT IN INDIA WILL GROW OVER THE COMING YEARS AS INDIA'S OWN GROWTH ENLARGES THE SCOPE FOR COMMERCIAL ENGAGEMENT. CERTAINLY, THE INDICATORS ARE MOVING IN A POSITIVE DIRECTION.

WHEN SECRETARY BROWN AND THEN-INDIAN COMMERCE MINISTER CHIDAMBARAM MET LAST JUNE AT THE FIRST USICA BOARD MEETING IN SANTA CLARA, THEY SET THE GOAL OF INCREASING U.S.-INDIA TRADE BY 30 PERCENT FROM 1994 THROUGH 1996. IN FACT, U.S.-INDIA BILATERAL TRADE GREW BY 19 PERCENT IN 1995 ALONE, FROM \$7.6 BILLION IN 1994 TO \$9 BILLION IN 1995. THE U.S. TRADE DEFICIT WITH INDIA DECREASED IN RELATIVE TERMS IN 1995, AS U.S. EXPORTS TO INDIA INCREASED 44 PERCENT, WHILE IMPORTS FROM INDIA ROSE 8 PERCENT. OUR GOAL MAY PROVE TO HAVE BEEN TOO CONSERVATIVE.

THE UNITED STATES IS THE LEADING FOREIGN DIRECT INVESTOR IN INDIA. TOTAL FOREIGN INVESTMENT APPROVED BY THE INDIAN GOVERNMENT BETWEEN AUGUST 1991 AND DECEMBER 1995 -- THAT IS, SINCE ECONOMIC LIBERALIZATION BEGAN -- WAS VALUED AT \$18.7 BILLION. OF THE TOTAL, 26 PERCENT -- OR FOUR TIMES THE NEAREST COMPETITOR (ISRAEL) -- IS AMERICAN.

#### COMMERCIAL ENGAGEMENT WITH PAKISTAN

LIKE INDIA, PAKISTAN HAS ADOPTED MORE MARKET-ORIENTED ECONOMIC POLICIES AND IS TURNING TO U.S. COMPANIES AND TECHNOLOGY FOR ASSISTANCE IN MODERNIZING INDUSTRY AND EXPANDING INFRASTRUCTURE.

PAKISTAN HAS REDUCED TARIFFS, MADE ITS CURRENCY CONVERTIBLE ON TRADE ACCOUNT AND TAKEN STEPS TO ATTRACT FOREIGN INVESTORS IN RECENT YEARS.

THE CLINTON ADMINISTRATION IS WORKING TO STRENGTHEN COMMERCIAL TIES WITH PAKISTAN, AND PAKISTAN'S ECONOMIC LIBERALIZATION HAS CREATED NEW AND SIGNIFICANT OPPORTUNITIES FOR COMMERCIAL COOPERATION.

IN APRIL 1995, PRIME MINISTER BENAZIR BHUTTO VISITED WASHINGTON AND INVITED SECRETARY BROWN TO VISIT PAKISTAN TO LAUNCH A NEW ERA IN THE COMMERCIAL RELATIONSHIP, WHICH WILL INCREASE U.S. EXPORTS AND CREATE U.S. JOBS.

TOWARD THIS END, WE PLANNED TO VISIT ISLAMABAD AND LAHORE LAST JANUARY. WE DID CONSIDERABLE PREPARATORY WORK ON INITIATIVES TO ENCOURAGE COMMERCIAL COOPERATION IN ENVIRONMENTAL PROJECTS AND TO FACILITATE SMALL AND MEDIUM-SIZED FIRMS TO ENTER THE PAKISTANI MARKET.

WE ALSO WERE WORKING WITH U.S. COMPANIES AND PAKISTANI OFFICIALS TO ENSURE THAT SOME IMPORTANT BUSINESS DEALS COULD BE SIGNED DURING THE VISIT.

WE HOPED TO GET AGREEMENT DURING THE VISIT TO LAUNCH A BILATERAL FORUM TO SPUR BUSINESS DEVELOPMENT ACTIVITIES AND DISCUSS WAYS THAT THE GOVERNMENTS COULD FACILITATE COMMERCE BETWEEN THE TWO COUNTRIES.

DURING THE VISIT, WE ALSO INTENDED TO DISCUSS SOME OF THE DETERRENTS AND OBSTACLES THAT AMERICAN COMPANIES FACE WHEN CONSIDERING DOING BUSINESS IN PAKISTAN. THESE INCLUDE GOVERNMENT CONTROLS THAT AFFECT ACTIVITIES AND EARNINGS, INSUFFICIENT INTELLECTUAL PROPERTY PROTECTION, AND INSUFFICIENT TRANSPARENCY IN TENDERING AND BUREAUCRATIC PROCEDURES.

AN IMPORTANT STEP IN THE PROCESS OF BUILDING CLOSER COMMERCIAL TIES WOULD BE TO MAKE IT POSSIBLE FOR THE OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC) AND THE TRADE AND DEVELOPMENT AGENCY (TDA) TO OPERATE IN PAKISTAN. WE BELIEVE THAT THE PRESENCE OF THESE AGENCIES WOULD GIVE ADDED CONFIDENCE TO COMPANIES IN WHAT CAN BE A DIFFICULT BUSINESS ENVIRONMENT. IT WOULD REMOVE SOME OF THE DISADVANTAGES U.S. COMPANIES FACE IN COMPETING WITH FIRMS FROM THIRD COUNTRIES. AND FROM THE PERSPECTIVE OF THE

GOVERNMENT OF PAKISTAN, I BELIEVE IT WOULD BE VIEWED POSITIVELY, AND THUS WOULD CONTRIBUTE TO OUR OBJECTIVE OF ENGAGEMENT WITH THAT GOVERNMENT.

WHEN COMPANIES CONSIDER DOING BUSINESS IN A COUNTRY, THEY LOOK AT A WIDE VARIETY OF FACTORS. CERTAINLY, THE CURRENT SECURITY SITUATION IN KARACHI -- PAKISTAN'S MAIN PORT AND DOMINANT MANUFACTURING, COMMERCIAL AND FINANCIAL CENTER -- AFFECTS COMPANIES' PERCEPTIONS AND DECISIONS. SECURITY CONCERNS HAVE LED SOME U.S. COMPANIES TO SHIFT STAFF AND ACTIVITIES TO LAHORE AND ISLAMABAD. THE FOREIGN COMMERCIAL SERVICE HAS MOVED ITS COMMERCIAL COUNSELOR AND MOST OF HIS STAFF TO ISLAMABAD. WE EXPECT THIS TO BE A TEMPORARY MOVE. FOR PAKISTAN AND ESPECIALLY FOR THE RESIDENTS OF KARACHI, I HOPE THAT SOLUTIONS WILL BE FOUND TO THE CURRENT PROBLEMS.

U.S. TRADE AND COMMERCE WITH PAKISTAN IS MODEST, BUT THE IMPACT OF PAKISTAN'S ECONOMIC LIBERALIZATION IS ALREADY BEGINNING TO BE FELT. BASED ON U.S. EXPORT PERFORMANCE IN 1995, IT APPEARS WE HAVE BROKEN THE TREND OF DECLINING TRADE WHICH OCCURRED AS A RESULT OF THE ACTIVATION OF PRESSLER AMENDMENT SANCTIONS. TOTAL U.S. EXPORTS TO PAKISTAN FOR 1995 MEASURED \$934 MILLION -- UP 30 PERCENT FROM \$718 MILLION IN 1994.

WE ARE PAKISTAN'S LARGEST TRADING PARTNER AND LARGEST INVESTOR, BOTH IN DIRECT AND PORTFOLIO INVESTMENT. U.S. DIRECT INVESTMENT IN PAKISTAN IS CLOSE TO A BILLION DOLLARS, MORE THAN \$250 MILLION OF THAT IN THE LAST TWO YEARS ALONE, WITH SEVERAL TIMES THAT AMOUNT UNDERWAY IN INFRASTRUCTURE PROJECTS.

#### IMPACT OF THE POSTPONEMENT OF THE MISSION TO INDIA AND PAKISTAN

THE DIFFICULTIES IN DOING BUSINESS IN SOUTH ASIA AND U.S. COMPANIES' LACK OF FAMILIARITY WITH THE MARKET MEAN THAT THE COMMERCE DEPARTMENT NEEDS TO BE PARTICULARLY ACTIVE IN MAKING BUSINESS AWARE OF THE OPPORTUNITIES AND ASSISTING COMPANIES TO EXPLORE AND DEVELOP SALES AND PROJECTS.

ALTHOUGH MARKET BARRIERS ARE COMING DOWN IN SOUTH ASIA, WE STILL NEED TO WORK VIGOROUSLY TO REDUCE THE OBSTACLES TO MARKET ACCESS.

THE FACT THAT THE COMMERCE DEPARTMENT WAS CLOSED FOR ALMOST A MONTH LAST DECEMBER AND JANUARY MEANT THAT U.S. COMPANIES

COULD NOT AVAIL THEMSELVES OF OUR BUSINESS COUNSELING, ADVOCACY SUPPORT AND OTHER ASSISTANCE. THOUSANDS OF COMPANIES CALL THE INTERNATIONAL TRADE ADMINISTRATION OFFICES EACH MONTH. MANY OF THESE ARE SMALL AND MEDIUM-SIZED FIRMS, WITH EXPORT PROBLEMS AND QUESTIONS.

THE IMPACT OF THE SHUTDOWN AND REDUCED COMMERCE DEPARTMENT RESOURCES IN SOME CRITICAL SUPPORT AREAS MAY DEFY EASY QUANTIFICATION, BUT IT IS ENORMOUS.

HAVING TO POSTPONE SECRETARY BROWN'S VISIT TO INDIA AND PAKISTAN IN JANUARY FORFEITED OPPORTUNITIES TO PROVIDE ADVOCACY AT THE HIGHEST LEVELS OF GOVERNMENT THAT COULD HAVE CLEARED THE HURDLES FOR A NUMBER OF U.S. COMPANIES' BIDS AND PROJECT PROPOSALS AND LED TO THE RESOLUTION OF MARKET ACCESS PROBLEMS.

FOREIGN GOVERNMENT LEADERS UNDERSTAND THAT A VISIT BY THE SECRETARY OF COMMERCE FOCUSES THE ATTENTION OF THE U.S. MEDIA AND BUSINESS COMMUNITY ON THEIR COUNTRIES. TO ENSURE THAT THEIR BUSINESS CLIMATE RECEIVES POSITIVE ATTENTION, FOREIGN LEADERS WORK TO EXPEDITE APPROVALS AND TO ANNOUNCE THAT AMERICAN COMPANIES HAVE BEEN SELECTED TO CARRY OUT MAJOR PROJECTS. THIS MOMENTUM WAS LOST WHEN SECRETARY BROWN HAD TO POSTPONE HIS VISIT LAST JANUARY.

SIMILARLY, THE VARIOUS INITIATIVES FOR COMMERCIAL COOPERATION -- A BUSINESS FORUM TO ADVANCE PRIVATE SECTOR DIALOGUE WITH PAKISTAN AND AGREEMENTS WITH BOTH INDIA AND PAKISTAN TO ADVANCE ENVIRONMENTAL COOPERATION AND TO FACILITATE SMALL AND MEDIUM-SIZED COMPANIES -- MAY BE SIGNED AT A LATER DATE. BUT LOST MOMENTUM AND TIME CANNOT BE RECOUPED.

NEEDLESS TO SAY, WE ARE NOT ALONE IN HAVING DISCOVERED THE NEW OPPORTUNITIES IN SOUTH ASIA. OUR COMPETITORS ARE INCREASINGLY ACTIVE. THE OPPORTUNITIES WE MISS OFTEN FALL INTO THE HANDS OF A GERMAN, ITALIAN OR JAPANESE FIRM.

FOR EXAMPLE, PRIME MINISTER JEAN CHRETIEN OF CANADA LED "TEAM CANADA" TO INDIA AND PAKISTAN IN JANUARY 1996. PRIME MINISTER CHRETIEN AND PRIME MINISTER BHUTTO ANNOUNCED CONTRACTS FOR CANADIAN COMPANIES VALUED AT A TOTAL OF \$2 BILLION IN 19 PUBLIC AND PRIVATE PROJECTS.

I MIGHT ALSO ADD THAT PRIME MINISTER BHUTTO VISITED JAPAN IN

JANUARY AND CAME AWAY WITH SOME \$765 MILLION WORTH OF FOREIGN AID LOANS AND GRANTS, MOST OF WHICH WILL PRODUCE EXPORTS AND JOBS FOR JAPAN.

WHAT IS GOING ON IN SOUTH ASIA IS GOING ON ALL OVER THE WORLD. THE UNITED STATES CANNOT AFFORD TO SLACKEN ITS EXPORT PROMOTION EFFORTS AND ADVOCACY FOR U.S. COMPANIES. IF WE DO, WE ARE HANDING SALES AND JOBS TO OUR COMPETITORS. OPPORTUNITIES OFTEN PRESENT THEMSELVES ONLY ONCE.

BECAUSE OF OUR LONG HISTORY OF LIMITED ENGAGEMENT AND FRICTIONS WITH MOST OF SOUTH ASIA, WE HAVE OFTEN REGARDED IT AS THE REGION OF MISSED OPPORTUNITIES. WE HAVE MADE PROGRESS IN PUTTING THIS PATTERN BEHIND US, BUT MUCH WORK REMAINS TO BE DONE.

Jack A. Shaw

Senior Vice President, Hughes Electronics Corporation  
Chairman and Chief Executive Officer, Hughes Network Systems, Inc.

April 18, 1996

House Committee on International Relations

House International Relations Subcommittees on Asia and the Pacific, and International  
Economic Policy and Trade



**Opportunities and Challenges for U.S. Companies In South Asia**

**Testimony Before the U.S. House of Representatives**

**Committee on International Relations**

**(Subcommittee on Asia and the Pacific)**

**by Jack A. Shaw**

**Senior Vice President, Hughes Electronics Corporation**

**Chairman and CEO, Hughes Network Systems**

Chairman Bereuter and members of the subcommittee:

My name is Jack A. Shaw. I'm a Hughes Electronics Corporation Senior Vice President and Chairman and CEO of our Hughes Network Systems, Inc. subsidiary. HNS, as we call ourselves, designs and manufactures telecommunications networks and systems and provides related services. HNS is the leading provider of wireless systems such as: satellite-based business networks, with more than 60 percent of the global market; cellular-based fixed wireless telephone systems; and mobile cellular digital packet data systems. Thank you for the opportunity to testify before this Subcommittee of the House Committee on International Relations – to discuss commercial opportunities and challenges for U.S. companies in South Asia.

### **India: a land of greatness and opportunity**

We are especially keen on the India market because one of our strategic goals is to expand sales of satellite-based and cellular-based equipment and services into high-potential emerging markets – and India is one of the fastest growing and most attractive emerging markets on earth. The world's tenth largest economy, seventh largest nation in land area, second largest in population and, I believe, first in opportunity for trade.

India is becoming ever more urbanized. Its two major port cities, Bombay and Calcutta, are among the world's dozen largest cities, and the populations of 17 of India's cities now exceed one million people each. Its admirable educational system is creating a skilled workforce and the second largest pool of software engineers anywhere, along with experts in medicine, high technology and the pure sciences. Technology parks are springing up and flourishing all over the country. And India is linking itself to the Global Information Infrastructure via sophisticated satellite and terrestrial communications and computer networks. India already is home to more than 5,500 registered software companies, for example, and software has become a billion dollar business. The nation's current economic growth rate is 5.5 percent or more, and the World Bank projects that India will be the world's fourth largest economy within just a few decades.

I have always been bullish on doing business with India. India is a world class trading partner for the United States. Our country, in fact, is India's largest trading partner. We did a record \$9 billion worth of business together last year, up 20 percent from the year before. Today, I cannot even dream how close our two countries could become as trading partners, if we keep working at it.

Our two nations enjoy the common bond of democracy – America's is the most lasting, and India's is the largest. To me, the single most striking advantage India has over some other emerging markets is an established legal framework. For business people, knowing that there is a legal framework surrounding what we do is very, very important.

#### **Pursuing effective liberalization policies**

In addition, I believe that the liberalization of the Indian economy begun five years ago has become part of the fabric of the nation and is here to stay. India's companies are proving adept at shedding the old bureaucratic ways of doing business. They are adopting latest management techniques and adapting to a competitive business environment. And I don't expect the results of the parliamentary elections this month and next to deflect India from its settled course regarding economic reform.

Wonderful progress has been made there in opening capital markets, streamlining the investment approval process, cutting tariffs, rationalizing licensing requirements, reducing taxation, and protecting intellectual property. The pace has been faster than seemed possible. India must continue the reform process. And we stand ready to continue investing our capital in the country. The opportunities we see are excellent.

Here's one example that I believe is really telling: While current telephone penetration in India is exceptionally low, demand is high and growing rapidly--12 percent per year. There's an estimated waiting list for nearly four million phone lines. But the market is much larger than that--perhaps as many as 360 million of India's citizens, 40 percent of the population, can afford phones. Close to half a million remote villages await their own telephone services. India's Department of Telecommunications keeps extending service, but demand is growing faster than the availability of public funds to do the job.

So, a little over a year ago, the government liberalized the telecom sector. At that time, the estimated price tag for modernizing the country's phone system and providing universal service exceeded \$12 billion. The prime minister's sensible solution was privatization, encouraging India's telecom companies to team up with foreign partners and combine capital resources, operating experience, local knowledge and technology.

In one initiative, the government is allowing Hughes and other companies to bid to invest private capital and bring basic telephone services into 20 different sectors, or "circles," covering the nation. The goal is to double available telephones lines to 14 million by next year. Two bid rounds already have been held, and licenses are being granted, and a third round of bidding began this week. Up to 49 percent foreign equity is allowed, and licenses are for 15 years. The response from Indian companies and multinationals has been positive, and over 40 proposals have been submitted so far. I am very pleased to add that we at HNS and our partners are among those winning a share of the business.

### **Three Hughes ventures in India**

Overall, Hughes has done business in telecommunications with India since the early 1980's. We brought the country its first digital satellite network to help collect data from offshore oil drilling platforms, and have since supplied networking services to various other organizations and government agencies. Presently, we have three successful ventures underway.

Hughes Software Systems Pvt. Ltd. specializes in the development of software for real time embedded systems for communications and networking and other high tech applications. Our partners are two Indian firms. With our

Investment of \$11 million in facilities in Delhi, Hughes Software Systems has grown to employ 400 people and enjoys a worldwide customer base. As an early entrant to the Indian market, I can tell you that we already see the stimulative effect of our investments on the local economy. Newer Indian firms are hiring away some of our employees as wages rise and the spillover effects of economic growth are felt. We are part of a process of expanding India's middle class, and therefore expanding our own future customer base. That, in turn, spells economic growth for us here in Maryland.

Only two months ago, our second India venture, Hughes Escorts Communications Ltd., marked its first anniversary of offering shared satellite communications hub services to businesses through very small aperture terminals, which we call VSATs. Already, this company of roughly 80 employees has signed up nearly 50 customers and installed more than 400 VSAT terminals all over India. Some are in remote rural areas that otherwise have no reliable telephone or communications services. Soon, Hughes Escorts will introduce additional satellite-based voice, data and video services. Our customers include a blue-chip list of Indian and international firms across the spectrum of manufacturing, distribution and financial and other services, as well as public sector organizations.

Our newest company, called Hughes Ispat Ltd., is a joint venture with Alltel and Nippon Denro Ispat Ltd., our Indian partner. It is bidding for basic telephony licenses under the country-wide deregulation that I mentioned earlier. Hughes Ispat has received a letter of intent from the Indian department of Telecommunications allowing us to offer basic telephone services for the state of Maharashtra and is awaiting a second letter of intent to allow us to serve the state of Karnataka. We expect to invest substantial additional capital, beyond the license fees, to build local manufacturing plants that will provide telecom hardware to our operating company.

As an engineer as well as a businessman, I am enormously excited about the challenge of helping India build and operate a 21st century telephone network – one that will leapfrog older technologies now in place in the U.S. and many other countries. Building our partnerships also is challenging. The key ingredients are mutual trust and respect, closely aligned objectives, a commitment to quality, value and on-time delivery, and a good mix of capabilities, facilities, experience and management. Here, nothing substitutes for understanding each other's cultures and business approach, and learning from each other.

### The success of USICA, the U.S.-India Commercial Alliance

That's why, in addition to my responsibilities at Hughes, I am pleased to serve as chairman of the U.S.-India Commercial Alliance, which is known by its acronym, USICA. Although USICA is just one year old, it's already a flourishing success story because, in large part, it is both the co-creation and a personification of Ron Brown, our late Commerce Secretary. He worked tirelessly to promote bilateral business-to-business cooperation, but his notion of commercial diplomacy went well beyond winning contracts. It was part of a larger vision that many of us in this room share, namely to improve the prospects for long-term economic and commercial ties with our trading partners thereby creating good jobs and by raising living standards in both countries.

USICA helps us realize this vision in a number of ways. It encourages business and trade associations in our two countries to form alliances and promote joint conferences, roundtable discussions, and training and work programs. USICA also is a powerful initiative to both deregulate and depoliticize trade between our countries. Companies such as mine enjoy immediate, top-level access to government policymakers whenever inhibiting rules and practices are uncovered during business-to-business negotiations or later on, as our joint ventures are operating. We openly address major issues that impede free and open trade. And, of course, USICA, as an international business



networking organization, is a direct doorway to new opportunities for trade and commerce.

Initially, we have targeted four business sectors for creating alliances. Each deals with infrastructure: transportation, power, agribusiness and telecommunications. We've broadened the latter sector to mean "information technology," including not only telephony but also computer systems, satellite communications, cable television, fiber optic networks and the Internet. The team members in each sectorial alliance are working toward such mutually-agreed objectives as technology transfer, business investment, and joint strategic market approaches.

Our mandate includes identifying impediments too. For instance, the information technology team has concluded that while India needs to keep improving transparency in telecom licensing and related areas, further ease old investment restrictions, and continue to bring down import duties on various products, the U.S. needs to simplify export procedures for computer systems, rationalize visa categories for software professionals, and, for those visiting here for short-term work assignments, free them from the obligation to pay U.S. Social Security taxes.

**How Congress can help us continue to flourish in India**

India is a tremendous emerging market. Yet, for no good reason, it remains on the fringes of the U.S. government's commercial agenda. It is essential that American business efforts to expand into India receive strong U.S. government support. Our senior officials should be active on a broader spectrum of economic issues focused on building stronger commercial ties between our two nations.

One of the ways Congress can help us continue to succeed in India is by supporting the Department of Commerce and its export and trade promotion efforts. Often, when we compete abroad, we are competing against not just foreign companies, but also their governments. We need the advocacy of our own government, and the Department of Commerce is a strong voice speaking up on our behalf.

It also is important that U.S. firms operating in India gain access to financial aid packages to compete against Japanese and European firms, for example, that already have huge financial backing from their governments. The role of the Ex-Im Bank in helping us match other nations' promises of low-cost financing can be crucial in winning contracts. As well as the roles of the Overseas Private Investment Corporation and the Trade and Development Agency, which have formed trade finance working groups that coordinate efforts to perform feasibility studies and initiate trade investment programs. All these benefit American firms as we compete abroad.

We also urge the U.S. government to reinvigorate a mechanism to ensure periodic dialog between U.S. and Indian officials that is results oriented, such as the Economic and Commercial Bilateral Subcommission. And, of course, please continue to support USICA.

Finally, let me end on a personal note. Like so many others, I was enthralled and inspired by the great energy that Ron Brown brought to his job and to realizing his vision of commercial diplomacy. I hope that spirit continues to pervade the Commerce Department and, indeed, our nation's entire approach to doing business overseas, especially in India.

Only two months ago, he and I shared the dais for a videoconference during USICA's board meeting. Ron said he brought me along because government and industry need each other to achieve success. Ron told us: "I always say it is the private sector that fuels the engine pulling the train of economic growth. We in government are here to help you clear the tracks."

Members of the subcommittee, I think our track ahead in India is clear. The signal lights are green and, together, our two great nations and all of our people will benefit as we keep the train of economic growth moving ahead.

**Doing Business in the New India  
and Mapping Policies for Further Growth**

**Statement by:  
R. Michael Gadbaw  
Vice President & Senior Council  
General Electric Company  
Chairman, India Interest Group**

**April 18, 1996**

**Before the  
House International Relations Subcommittees on  
Asia and the Pacific  
&  
International Economic Policy and Trade**

Mr. Chairman, I would like to thank you for giving me the opportunity to address this joint hearing of the House International Relations Subcommittees on Asia and the Pacific, and International Economic Policy and Trade. I am here today as the Chairman of the India Interest Group. We applaud your initiative to hold hearings on a matter so important to U.S. export growth and U.S. jobs.

What has happened in India in the last five years has helped to make the world a much smaller and more prosperous place for both Indians and Americans. The story of how the Indian Government launched a program of structural reforms to open India to the global economy is a story well worth telling. Starting in 1991, the Indian Government adopted a series of liberalization measures in the areas of trade, private investment in industry, labor, capital, finance sector and public enterprise. These economic reforms have helped to drive the growth of India's emerging consumer market and diversified industrial base, thereby presenting important new opportunities for a significantly increased U.S.-India commercial relationship.

Benefits of India's economic growth are improving the lives not only of Indians in Delhi or Bombay, but of Americans in Denver, Colorado, in Schenectady, New York, in Milwaukee, Wisconsin and many other places throughout our country. Telecommunications equipment produced in Colorado is revolutionizing the development of the entire Indian infrastructure. Gas turbines made in Greenville, South Carolina are powering the industrial growth and rural development of India. Companies in Milwaukee are supplying components for medical equipment going to thousands of Indian hospitals. In short, economic growth in India is directly tied to U.S. exports and jobs for working Americans.

Already U.S. exports to India have grown 20% in the 93-94 fiscal year, and are expected to increase by about 15% this year, and direct U.S.

investment last year surpassed our country's combined investment in India over the last 45 years. Looking to build on this growth dynamic as India adapts still more market opening measures, the Administration has identified India as one of the Big Emerging Markets of this decade. This initiative has been especially helpful to medium and small sized U.S. companies which are looking for partnerships and alliances with Indian firms in most sectors of the Indian Economy.

### **The India Interest Group**

The India Interest Group is an informal group of forty major U.S. companies, representing \$ 3.6 billion in approved and pipeline direct investments in India. In December 1993, we launched the India Interest Group to highlight the positive impact on U.S. trade and investment of the economic changes taking place in India. Our desire was to work with the U.S. Government and the Government of India to improve the bilateral commercial environment through a two way dialogue aimed at raising the visibility of U.S.- India commercial relations with policy and decision-makers in Washington, and encouraging the process of liberalization of the Indian economy, especially trade and investment policies.

I am pleased to report that the atmosphere in U.S.-India commercial relations has never been more positive. The rediscovery of India by the U.S. Government is evidenced by the launching of two complementary initiatives. The late Secretary Ron Brown and Former Indian Commerce Secretary Pranab Mukharjee initiated the US-India Commercial Alliance on January 16, 1995. Minister of Finance Monmohan Singh and UnderSecretary of State Joan Spero formed the US-India Economic Subcommission. These activities have brought together business and government in a partnership to work on furthering trade and investment liberalization. I would also like to mention that the

transformation of the U.S. Department of Commerce and our embassies overseas into real advocates for U.S. business is another positive change. In particular, Ambassador Frank Wisner and his staff at the U.S. Embassy in New Delhi are a model of how business and Government need to work together to advance U.S. commercial interests.

The India Interest Group has encouraged the Government of India to maintain the momentum of its reforms to increase the flow of U.S. trade and investment. Moreover, we have recommended that the Indian Central Government reforms be supplemented by complementary reforms on the State level in order to create a uniform pace of reform throughout the country. In this connection, we have been honored to host a number of Chief Ministers of important Indian States here in the United States. Their visits have helped to highlight opportunities at the state level and the commitment to reforms by these state Governments.

Mr. Chairman, the India Interest Group has focused particular attention on six areas. They are: (1) Trade and Investment, (2) Energy and Power Generation, (3) Transportation, (4) Telecommunications, (5) Information Technology and (6) Consumer Goods. I would like to briefly address key issues in each sector.

### **(1) Trade and Investment**

In trade, we have seen significant reductions in Indian import tariffs and import licensing restrictions, a liberalization of the foreign exchange market, and the virtual elimination of quantitative import controls. We have encouraged the Government of India to build into its 1996/97 budget significant tariff cuts, especially on capital equipment, and to achieve greater transparency and predictability in India's tariff regime.

In investment, we have witnessed the elimination of Government monopolies in the power, transportation and telecommunications sectors, automatic approval for 51% foreign equity investments and the opening of capital markets to foreign investors. We have encouraged the Government of India to eliminate or reduce Central and State agency clearances on new investments. In addition, we believe that the time has come for the U.S. and India to negotiate and sign a Bilateral Investment Treaty.

## **(2) Energy and Power Generation**

In the Energy and Power Generation sector, the demand for power is increasing exponentially. The World Bank estimates that India will require 100GW of power generation capacity by the year 2000 in order to sustain its current growth rate. India's electric power load growth is forecast at 10-13% per year over the next few years, while the energy use growth from 1982-1995 was at 6% per year. Currently India has a capacity of 78GW of power plants. A significant portion of the capacity growth is expected to come from independent private power (IPP) production, requiring billions of dollars in new capital investment. The required investment for public and private power development combined is projected to total over \$200 billion in this period.

The electricity rates in India differ dramatically from state to state, typically with large subsidies for agrarian areas. Below market rates in certain states are serious deterrent to foreign investment or other participation in the sector. The Indian Government is undertaking electricity rate reform by setting up national and regional boards to draft transparent rates for each state, and by developing a two-part tariff system based on private power project capital costs and operating expenses.



The India Interest Group has been discussing with our counterparts in India a six step approach to reform of the Power Sector in India. Jointly, we made a series of recommendations: (1) reform and restructure the State Electricity Boards (SEB's) through (a) tariff reforms; (b) transfer of generation and transmission / distribution assets from SEBs into independent privatized companies; (c) creation of an independent regulatory authority; and (d) adoption of a standardized format of the Power Purchasing Agreement (PPA); (2) Further streamline the clearance process, building on the significant progress the Government of India has already made; (3) raise the RS 400 Crores (\$114.3 million) financial limit on power projects; (4) promote an effective competitive bidding procedure; (5) develop a national fuel management plan as a guideline for all states to follow; and (6) promote the renovation and modernization of existing power plants.

I will not go into detail on the pending power projects. Suffice it to say, there has been some progress on the fast-track projects. Most noticeably, Enron and the Maharashtra State Government have renegotiated the 2,415 MW Dabhol Power Plant, and that project should be relaunched by May 1, 1996.

### **(3) Transportation**

The transportation sector in India is currently unable to keep up with India's economic growth. India's growing population, coupled with increased urbanization have contributed significantly to India's deteriorating transportation system. As investment drives growth in India, the need for improvements in roads, seaports, airports and railways must be focused on preventing bottlenecks in the transportation of goods. Unless corrective measures are initiated soon, economic growth will suffer. US companies are ready and willing to assist with capital and know-how in addressing this challenge.

Infrastructure bottlenecks adversely affect the domestic Indian economy in at least four fundamental ways. First, industrial production is disrupted when raw material cannot be moved on time to production units. In many core industries like cement and fertilizers, cutbacks in production are also necessitated where there is an inventory backup due to transport constraints. Second, costs of production are increased dramatically. Poor roads increase the operating costs of trucks and other vehicles of transport, and movement by roads when rail services are not available nearly doubles the cost of long-haul transportation (e.g., coal, cement, steel, fertilizers, heavy chemicals etc.). Third, productivity levels are pushed downwards by under-utilization of production capacities, and the adverse impact of uncertainties associated with transport severely affects advance planning of production and logistics management. Fourth and finally, in the age of "Just-in-time" and "zero inventory" management, guaranteed delivery is a prerequisite for success in international trade.

As part of the overall liberalization process, India's Ministry of Surface Transportation has taken steps to liberalize rules and procedures relating to maritime transport. Sea Port capacities, however, are being stretched beyond their limits. Most of India's ports are working well above capacity. These limitations are major sources of congestion and delays. Internationally, ports usually operate at 55 to 65 percent of capacity utilization, however in India, most ports operate above the 100 percent mark.

In addition, the average turnaround time of ships average four to ten days in Indian Ports as compared to six to 48 hours in most foreign ports. The average turnaround of container vessels in India is four to eight days on average compared to six to eight hours in other ports in the region. A World Bank study has estimated the cost of container delays in Indian ports at US \$70 million per year.

There is tremendous opportunity for American companies to enter India and participate in developing needed infrastructure. India must import large road building equipment if road construction is to take place in all parts of India. Tariffs should be waived, or at least reduced on this equipment and spare parts, and provision made to allow this equipment to be reexported or sold within India.

#### **(4) Telecommunications**

India currently has one of the least-developed communications sectors in the world. With nine million telecom lines presently in operation, estimates are that at least an additional 50 million lines will be required in the next decade. Massive investment, both foreign and domestic, will be required to meet this urgent need. Upgrading the entire communications infrastructure is a critical element for all economic and political development in India.

Last year, the Indian Government announced a new National Telecommunication Policy, which has the objectives of achieving rapid universal service with world class telecom services by 1997. To meet these objectives the Government issued tenders in January 1995 for both basic and cellular services in the major cities (population areas) of India.

Although there is broad support by U.S. telecommunications companies for the policy itself, there are concerns about its implementation in the tender process. First, India has no statutory independent regulatory authority to administer the tender process. (India is implementing telecommunication reform through a Telecom Regulatory Authority of India (TARI), but the Indian Parliament has yet to enact legislation creating this organization). In addition, U.S. companies fear that the Department of Transportation (as the established main competitor) will enjoy substantial advantages over new entrants. These

advantages could include the ability of the Department of Telecommunications to impose exorbitant interconnection charges, roll out obligations, and license fees, as well as to control the quality of service. Potential U.S. competitors are concerned by the lack of any certainty in how the terms and conditions can be changed or evolve over time (as well as the apparently inequitable role of DoT in that process).

In order to achieve a rapid expansion of the Indian Telecom Network and provide competitive products and services to the end user, the India Interest Group developed a set of recommendations that we are discussing with Indian businesses and Government officials. These include an end to the ban on the importation of generic "consumer telecom equipment" and that peak import duty levels be reduced from the effective rate of 98% today to around 40% in 1996-97. As part of the overall tariff reduction, existing tariffs on telecom equipment should be lowered to a level comparable to equipment on other infrastructure projects (i.e. roughly 25%) and concessional import duties should be applied to equipment needed for telecommunication networks in rural areas. The India Interest Group has further recommended that the project import benefit be extended to basic infrastructure equipment should be provided to telecom networks. Finally, the pilot licenses already granted last January during Secretary Brown's visit should be implemented.

#### **(5) Information Technology**

The creation of modern information technology is key to sustaining India's economic development and attracting foreign investment. U.S. information technology companies can play a pivotal role in automating and modernizing key

infrastructure sectors including banking and financial services, airlines and ground transportation, telecommunication and energy.

Despite the obvious benefits to the U.S. and India, both countries maintain obstacles to the rapid development of India's information technology infrastructure. Major Indian inhibitors include: (1) high tariff rates on computer systems, software and manuals; (2) high telecom tariffs and poor service levels; (3) complex software valuation procedures; and (4) lack of depreciation and other incentives to spur information technology investment. The U.S. maintains restrictions and a complex regulatory regime on the export of high speed computers required to implement a modern information technology infrastructure in India.

The Government of India agrees with the view that information technology is an essential element in the modernization of many key commercial sectors, such as banking, telecommunications and energy, as well as of government processes such as revenue collections. The Government of India has been receptive to specific proposals on reductions of duties and to correct particular problem areas such as those regarding software valuation. We are working with Indian businesses on specific proposals for further tariff reductions.

#### **(6) Consumer Goods**

With the emerging middle class of 100-250 million people in India, coupled with the rising rate of personal consumption, the demand for consumer goods is quite high. The potential for American companies in this area is quite large. There are, however, a number of serious limitations on U.S. companies' abilities to participate in this market.

Most consumer product imports (including processed foods) continue to be restricted through a negative list (import bans) or restricted list (licensing requirements). Many products on the restricted list have industrial and commercial applications yet are designated as consumer products and thus restricted.

Even if India's import restrictions were removed, most consumer products would face prohibitively high tariffs. In the current 1995/96 fiscal year, India's unweighted average tariff rate of 42% is still among the world's highest. Additional import charges add significantly to import costs and are often applied to goods not produced domestically. Consumer goods were excluded from India's comparatively high Uruguay Round industrial GATT bindings offer of 40% by 2004, and India's tariff ceiling bindings in the WTO for processed foods range from 100 to 300%.

The 1995/96 India Budget continued liberalization begun in 1991 as the average import-weight applied tariff was reduced from 33% in 1994/95 to 27%. With some exceptions, tariffs were reduced on capital goods, semi-manufactured imports, and imports for electronics required for local production rather than on finished consumer goods. The maximum ("peak") tariff was reduced from 65 to 50 percent. Moreover, some consumer products were removed from the restricted lists and added to the Open General List.

Nonetheless, most finished consumer products continue to be banned and tariffs remain among the highest in the world. As stated by the World Bank in 1995, "Restrictions on imports of consumer goods and trade of agricultural commodities are still important obstacles to the full integration of India into the world economy."

We are discussing with Indian businesses and the Indian Government ways to reduce these barriers, sensitive to the inherently political and controversial nature of this sector, but mindful of the importance of progress in this area to growth in two-way trade.

## **Conclusion**

Mr. Chairman, thank you for inviting me to testify. We believe American business and American workers have an important stake in India's continued economic growth with its positive impact on two-way trade and investment. The progress India has made to date had been impressive. The India Interest Group is pleased to be part of this effort to generate growth and jobs in India and in the United States and we look forward to a positive exchange of ideas with you and the members of the Subcommittees.

March 25, 1996

## *INDIA INTEREST GROUP*

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**A Statement Submitted to  
One Hundred Fourth Congress  
Congress of the United States  
Committee on International Relations  
House of Representatives**

**by  
Vinod Gupta  
Founder and Chief Executive Officer  
American Business Information, Inc.  
Omaha, Nebraska  
April 18, 1996**

Mr. Chairman, my name is Vinod Gupta. I'm the founder and chief executive officer of American Business Information, Incorporated, based in Omaha, Nebraska.

I grew up in a little village in India called Rampur Manhyaran. This village had no roads, no electricity, no telephones, no cars, and virtually no conveniences of any kind . . . but it did have a high school, which I attended. I then went on to receive my Bachelor of Technology degree in engineering in 1967 from a prestigious college known as the Indian Institute of Technology in Kharagpur.

I left India that same year with \$58 in my pocket and came to the University of Nebraska at Lincoln to pursue my Master's Degree in Engineering, which I received in 1969. I then went on to receive my MBA in 1971, also from the University of Nebraska. You might recall that Nebraska was number one in football that year, just like they were for the past two years.

In February of 1972 I founded American Business Information with an initial investment of only \$100. Today, it is a publicly owned, 100 million dollar company, employing more than 800 people.

When I was a young boy, I was told that America was the land of opportunity, and now I know, first-hand, that they weren't kidding!

Mr. Chairman, today I want to take this opportunity to thank the people of the United States, and especially the people of Nebraska, for allowing me to come to this country and giving me the opportunity to succeed, the happiness, the satisfaction, which I probably would never have been able to get anywhere else in the world.

Furthermore, Mr. Chairman, I have three lovely boys, Jess, Benjamin and Alex, who will grow up to enjoy the same benefits that I've had since I moved to the United States, and I am grateful for that.

It is also my pleasure to introduce to this committee my fiance, Dr. Crystal Grow, who has been my partner, counselor, and my best friend during the past two years of my life.

**Vinod Gupta**  
**Statement to Committee on International Relations**  
**April 18, 1996**  
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As you know, I'm not the only immigrant who has found great fortune in the United States. Over the years, millions of immigrants have come to this country seeking opportunity and a better life. They, too, have found happiness, they have started families, and they have a similar story to share.

Mr. Chairman, today the term "Second World" has pretty much disappeared from our vocabulary. Why? The need for bread, butter, housing and clothing won out over the idealism of communism, and the fraud of communism and socialism was finally exposed.

The collapse of communism in the Soviet Union and Eastern Europe in 1991 sent a message to the entire world that democracy and the free market economy will prevail in the long run. One of the regions where this message was heard the loudest was South Asia. India, which is the largest country in the region, both in size and in population, had a long infatuation with state socialism. The former Soviet Union was India's largest trading partner.

But by 1991, India was nearly bankrupt. Its foreign reserves had dwindled to less than one billion dollars. This forced India to make a major reassessment of its economic policies. In the new world order, Prime Minister P.V. Narashima Rao and Finance Minister Man Mohan Singh proposed a series of economic reforms which turned India toward a market economy.

State-owned corporations were forced to compete against new private entities. Tariffs and other trade barriers were reduced. Some sectors were changed from public to private control, and foreign investment was encouraged.

The results of these reforms, which are still evolving, are very impressive. India's foreign reserves have increased to \$17 billion, and the Gross National Product, which grew at a meager rate of 0.6% in 1991, is expected to exceed 6.5% this year.

These reforms have been very well received in the United States. In 1991, the United States had very little economic activity with India. In fact, U.S. investment was only \$143 million that year. Since the start of the reforms, however, the U.S. has invested \$5.5 billion, and this year alone, American investment is expected to exceed \$2.5 billion. The United States has now become India's largest investor, and trade between these two countries is expected to continue at a robust rate.

Mr. Chairman, the rediscovery of India by the business community in the United States is an interesting development. For the past 20 years, American corporations have been obsessed with China. In terms of population, China is the largest country in the world. It has cheap labor, high savings rates, and an impressive work ethic. Its workforce is also very talented in the areas of mathematics, engineering and science.

In the past, Corporate America saw China as the largest consumer market in the world, and the answer to its quest for the ultimate emerging market. In the past three years, however, American corporations have begun to reassess future plans that were based entirely on China.

**Vinod Gupta**

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Certainly India's reforms have played a critical role in these reassessments. But so have the activities of the authorities in Beijing. The entire world watched in horror as thousands of peaceful protesters were killed or wounded in Tiananmen Square. And corporate executives were stunned when a McDonald's franchise in Beijing was suddenly revoked by the government.

And of course, our government has been deeply disturbed by China's recent war games against Taiwan, as well as the illegal transfer of M-11 missiles, missile technology and ring magnets to Pakistan and Iran.

Our business community is now waking up to the fact that India, which has more than 900 million people and a consumer class of almost 200 million people, offers an alternative to China as the most important emerging market for the next decade and beyond.

India also has the same qualities that were so attractive to corporate America in the past: a strong work ethic, competitive labor rates, and a strong commitment to education, particularly in the sciences.

But India has attributes that China does not which are vital to the United States and other countries in terms of long-term, safe investments: a common law legal system, property rights, freedom of the press, freedom of religion, open elections, and English as the language used to conduct business.

Despite China's early lead in the search for U.S. corporate investment and trade, I am confident that India will prove to be the better choice in the long-run.

Mr. Chairman, much of the current U.S. investment in India is focused on infrastructure opportunities in the areas of power generation, telecommunications, and transportation. India has implemented important market reforms in these areas. For example, India recently issued licenses for its cellular and telephone services. American companies such as U.S. West, Nynex, Bell South, AT&T, AirTouch, Hughes, and PacTel are all in the telecommunications market in India.

And it's important to point out that India's foreign ownership restrictions are actually less restrictive than in the United States. We limit foreign ownership of a telephone company to 20%. In India, it is 49%. This speaks very clearly about how committed India is to opening the core sectors of its economy to foreign investment.

Mr. Chairman, I would like to end on a personal note. There are numerous success stories in American business today that have started in India. For example, Mr. Rajat Gupta, the Chairman of McKinsey & Company, was born in India. So was Mr. Rakesh Gangwal, the President of U.S. Air. And there are many other Indian entrepreneurs who have founded their companies in the United States, providing millions of jobs for Americans. I, too, have been blessed here in America.

**Vinod Gupta**

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All of us who have been successful in America have done so because the United States promotes individual entrepreneurship and freedom. I believe similar success stories are waiting to unfold in India. The economic reforms being implemented in India today will most certainly produce a level of productivity and creativity that has never been experienced in South Asia. In fact, my own family and friends are negotiating with many U.S. companies over large investments in India. It is vital that our government does not do anything that could endanger these reforms, and the economic benefits they are producing.

We must recognize that India, the second most populous nation on earth and the world's largest democracy, deserves the strong and undivided attention of the American government, as well as our private sector. We must put the baggage of the "Cold War" behind us. Unless we do, the United States will miss an important opportunity in South Asia.

Thank you very much. I would be happy to answer any questions you may have.

PREPARED TESTIMONY

BY

TARUN DAS

DIRECTOR GENERAL

CONFEDERATION OF INDIAN INDUSTRY

Before the Asia and Pacific Affairs Subcommittee  
of the House International Affairs Committee

April 18, 1996

PREPARED TESTIMONY BY TARUN DAS  
DIRECTOR GENERAL  
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of the House International Affairs Committee

April 18, 1996

Mr. Chairman and Members of the Subcommittee, it is a singular honour for me to testify before the Asia and Pacific Affairs subcommittee of the distinguished House International Affairs Committee. I would like to thank you for this opportunity to present my views on the economic opportunities in India for U.S. investors and the compelling reasons why India should top the list of priority countries for U.S. investors.

I represent the premier trade association in India -- the Confederation of Indian Industry (CII). CII is a unique organization.

We have 3,100 member companies with total capital investment of more than \$ 63 billion in U.S. dollars. CII members' come from both the public and private sectors in India. We also have 23 domestic and 8 overseas offices -- including a Washington, D.C. facility that was established in the summer of 1995.

The United States is a top priority for CII, and we are expanding our interactions with your country. CII works very closely with National Trade Associations, Chambers of Commerce, the India Interest Group. At the same time, we have signed Memoranda of Understanding with the National Association of Manufacturers (NAM), the National Electrical Manufacturers Association (NEMA), the Conference Board of New York, the U.S. Export Council for Renewable Energy (USECRE), and the American Boiler Manufacturers Association.

On a regular basis, CII brings Indian CEOs and sectoral delegations to the United States while also organizing visits to India by similar groups of Americans. We serve as the Indian Secretariat for the Working Group on Joint Private Sectors of the Indo-U.S. Economic and Commercial Subcommission. We also have major tie-ups with U.S. universities and think tanks -- including the Harvard Business School, Michigan University, the J.L.Kellogg School of Management and the Aspen Institute, the Centre for Strategic and International Studies and the Asia Society.

From June 1-13 this year, we will be bringing to the United States a 60-member business delegation not only to promote investment in India but also to initiate the kind of dialogues that can lead to fruitful joint ventures.

As should be evident, CII is deeply interested in increasing U.S. investment into India. Indeed, we are firmly convinced that the best destination for US investment is INDIA and I would like to offer you some of the very compelling reason behind our conviction:

### **India's Economic Growth**

The economic reforms India initiated in 1991 to spur competition in the domestic economy have resulted in overall growth by our GDP in excess of 6 percent annually. In fact, growth in the GDP during 1994-95 was 6.3 percent, and it is expected to be sustained at a level of 6.2 percent in fiscal 1995-96.

India's current growth is both supported by and engendering greater economic stability. The fiscal deficit has dropped from 8.3 percent of GDP in 1990-91 to 5.9 percent in 1995-96. In addition, prices also have been strictly managed to bring inflation down to a 4.5 percent annual rate.

### **The Performance of the Agricultural Sector**

Agriculture accounts for 31 percent of India's GDP and the government's reform program has brought about a catalytic transformation and significant growth in this sector. Grain production in 1994-95 reached a record level -- 191 million tons. At the same time, reforms have led to diversification in the agricultural sector, producing better income prospects for many farmers. Similarly, liberalizations in the investment arena have spurred development in the food processing industry, horticulture, the dairy industry and other non-cropping activities.

### **The Performance of the Industrial Sector**

India's industrial sector currently is demonstrating a remarkable capacity to adjust and sustain competition. Through the middle of 1995, industrial production grew by 11.8 percent over the same period in 1994 while manufacturing grew by a record 12.6 percent.

Within the manufacturing realm, several sectors registered growth rates of 12 percent or more between April and September of 1995. These included: wood and paper products, non-metallic mineral products, basic metal and alloy industries, metal products and parts, non-metallic and electrical machinery, and transport equipment.

Automobiles and durable consumer goods were among the leading growth sectors. The sale of automobiles in India grew at about a 25 percent rate in 1993-94 and 1994-95. The electronics industries also is continuing its upward trend with a growth of about 17 percent in 1994-95.



### **The Investment Outlook**

CII is extremely buoyant about the investment opportunities in India. Since the initiation of economic reforms in 1991, transnational corporations and foreign firms have expressed keen interest in India. The total number of Foreign Direct Investment proposals approved in the post-reform period have totaled \$15 billion in U.S. dollars with actual inflows of about \$3.4 billion in U.S. dollars.

With foreign direct investments now encouraged in certain priority areas such as power, oil refinery, electronics and electronic equipments, chemicals, food processing industries, telecommunications, and industrial machinery, and with equity interests in excess of 51 percent sometimes allowed, the opportunities for American companies continue to grow.

### **India's Balance of Payments**

The strength and resilience of India's balance of payments in recent years has been largely due to robust export growth witnessed during the last three years.

Indian exports during April-December 1995 showed an increase of 24.5 percent over the previous year. Rice maintains the leading position registering a phenomenally high growth of 293 percent. Substantial growth -- in excess of 50 percent -- also was recorded in electronic goods, castor oil, chemicals, ferro alloys, iron and steel bar rods, and ready-made garments.

Towards the end of 1994, imports began to pick up, growing in dollar terms at 6.5% in 1993-94 and at 22.9 percent in 1994-95. Between April and December of 1995, imports overall grew at a very impressive rate of 29.3 percent.

In the midst of this growth in both imports and exports, borrowing by India has declined -- from an average of \$4.5 billion in U.S. dollars in 1990-92, to \$2.28 billion in 1994-95.

With the pace of new foreign investments up again in 1994-95, the demand for new borrowing has been increasing in 1995-96.

As a result of the clear improvement in overall economic performance, especially in external sector, international credit agencies upgraded India's credit rating to investment grade last year.

Total foreign exchange reserves have risen from \$ 3.96 billion at the end of 1989-90 to a historical peak of \$ 25.19 billion at the end of 1994-95.

The build up of reserves has been achieved largely due to the impressive performance in exports, buoyancy in invisible receipts and a surge in non-debt creating foreign investment flows, direct and portfolio.

Portfolio investments by Foreign Institutional Investors (FIIs), which began with a sudden surge of \$ 1.67 billion in 1993-94, were maintained at a level of \$ 1.50 billion in 1994-95. These flows, however, slackened in the first part of 1995-96 in the wake of December, 1994 Mexican crisis. From April to November in 1995, net portfolio investments by FIIs were only \$780 million. From December of 1995, there was a resurgency of portfolio investments by FIIs, with net flows in excess of \$150 million in January 1996.

### **Conclusions**

India's economy is demonstrating its ability to sustain a competitive environment with strong economic fundamentals and prudent macro economic management. Employment has picked up, and all production sectors are buoyant and resilient with rapid development of technology-intensive industries and with large investments in the pipeline, mainly in infrastructure industries.

The external economy is on a sound footing and India is emerging as a major exporter with imports also increasing at a high rate.

The United States is India's largest trading partner. It also is the largest foreign investor in India and a major source of technology for us. Needless to say, India's deepest economic links are with the United States and we feel that every effort should be made to sustain and nurture these ties.

American companies have enjoyed great penetration in India, and the United States can continue to play a major role in making our economic reform process a success. Opportunities exist in every sector. Particularly attractive areas include power generation and development, oil and gas exploration, petrochemicals, construction of roads, port development, telecom services & equipments, electrical machinery, industrial electronics and automation, data processing equipments and automobiles.

What I hope I have conveyed today are reasons why U.S. investors should continue to look at India as a source of opportunity.

Mr. Chairman, we in CII are available for guidance and help to any American company wishing to explore India and its endless possibilities, both through our office in Washington, DC and through India.

We thank you for your time and our office here in Washington is always available to answer your questions.



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